

**City of Clearwater  
Wright County, Minnesota**

**Communications Letter**

**December 31, 2021**



**City of Clearwater  
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## Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

Honorable Mayor, Management, and Members  
of the City Council  
City of Clearwater  
Clearwater, Minnesota

In planning and performing our audit of the regulatory basis financial statements of each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota, as of and for the year ended December 31, 2021, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's regulatory financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

The material weaknesses identified are stated within this letter.

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.

The City's written response to the material weaknesses identified in our audit have not been subjected to audit procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated March 17, 2022, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of the Members of the City Council and management and others within the City and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
March 17, 2022

## **City of Clearwater Material Weaknesses**

### **Lack of Segregation of Accounting Duties**

The City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management and the City Council are aware of the lack of segregation of accounting duties and have taken certain steps to compensate for the lack of segregation. Due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be all inclusive:

- **Controls over the Receipting Process:** The Deputy Clerk, or Accountant, or City Administrator in their absence, receives and posts receipts. The Accountant prepares the deposits and enter the deposits in the City's general ledger. The Deputy Clerk or City Administrator makes the deposits at the bank. Receipt vouchers are then matched with the deposit by the Accountant.
- **Controls over the Disbursement Process:** The Accountant or Deputy Clerk or City Administrator in their absence, processes invoices, and prints checks for payments. The Deputy Clerk and the Mayor sign the checks.
- **Controls over the Utility Billing Process:** The Deputy Clerk calculates and mails utility billings and has the ability to make adjustments to bills. The Accountant, or Deputy Clerk in her absence, posts utility billing information into the general ledger, enters payments from the counter, and maintains customer accounts and rates and the bill register.
- **Controls over the Journal Entry Process:** The City Administrator and Accountant can both initiate transactions and can record journal entries. These are reviewed internally.

We recommend management, along with the City Council, remain aware of this situation and continually monitor the accounting system including changes that occur.

### **Material Audit Adjustment**

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal control system and, therefore, could have resulted in material misstatements of the City's financial statements.

In order to ensure financial statements were free from material misstatements, audit adjustments were required to properly adjust debt activity in governmental and enterprise funds.

## **City of Clearwater Required Communication**

We have audited the regulatory basis financial statements of each major fund, the discretely presented component units, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2021. Professional standards require that we advise you of the following matters related to our audit.

### **Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Our Responsibility in Relation to *Government Auditing Standards***

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the City's 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 basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## **City of Clearwater Required Communication**

### **Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the City's compliance with those requirements.

In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

### **Significant Risks Identified**

We have identified the following significant risks of material misstatement:

- Revenue Recognition
  - Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting an entity's net income or loss. In addition, complexities exist surrounding the implementation of Accounting Standards Codification (ASC) 606, which was previously effective, however continues to create complexity as company's enter into new contracts or modify existing contracts.
- Management override and Misappropriation of assets
  - Management override of internal control and misappropriation of assets is considered a risk in substantially all engagements as management may be incentivized to produce better results or may have the ability to misappropriate assets due to lack of segregation of accounting duties.

### **Qualitative Aspects of the City's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2021.

## **City of Clearwater Required Communication**

### **Qualitative Aspects of the City's Significant Accounting Practices (Continued)**

#### *Significant Accounting Policies (Continued)*

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

Depreciation – The City is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

#### *Financial Statement Disclosures*

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.



## **City of Clearwater Required Communication**

### **Uncorrected and Corrected Misstatements (Continued)**

Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Material audit adjustments related to enterprise fund revenues that we identified as a result of our audit procedures were brought to the attention of and corrected by management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the City, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditor.

### **Other Information Included in Annual Reports**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the City's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

## **City of Clearwater Required Communication**

### **Other Information Included in Annual Reports (Continued)**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

### **Modification of the Auditor's Report**

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## City of Clearwater Financial Analysis

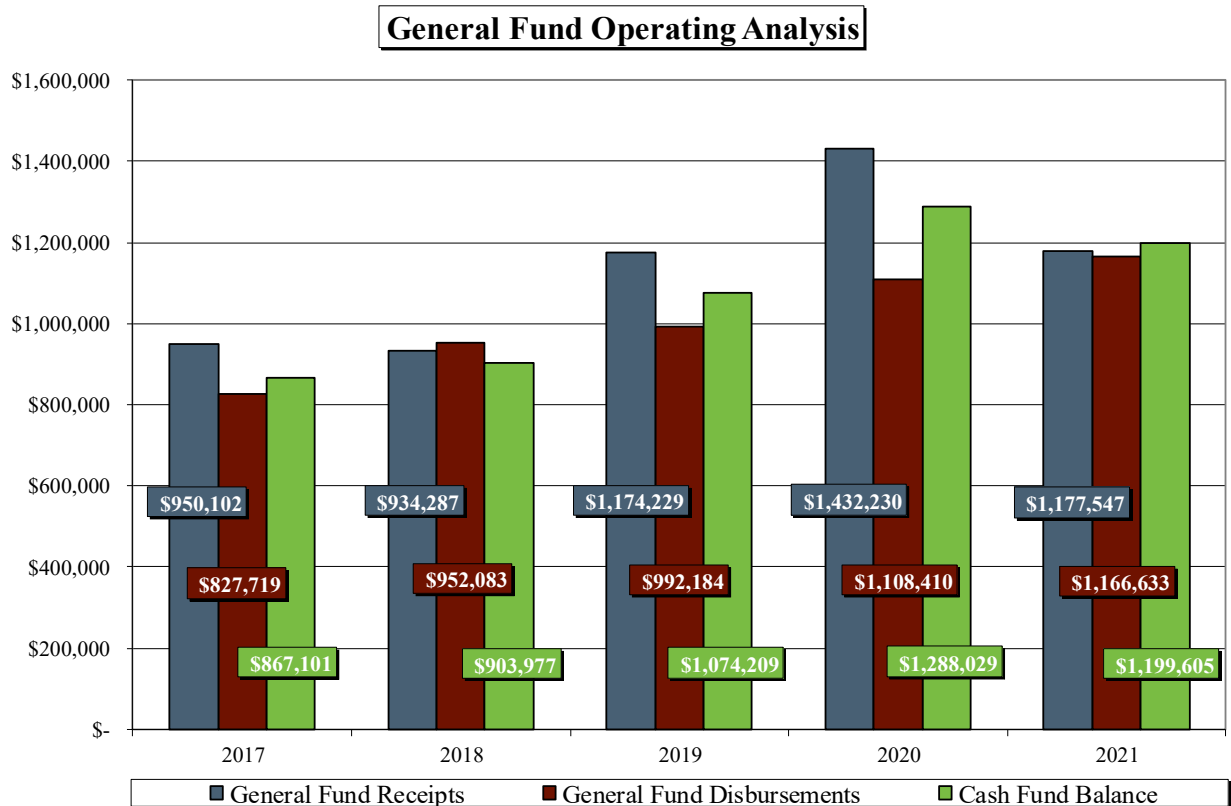
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

### General Fund Receipts and Disbursements

The graph below shows General Fund operations for the past five years. As illustrated, receipts in the General Fund decreased \$254,683, or 17.8%, in 2021. Taxes and assessments increased \$18,708 from 2020, primarily as a result of an increase in taxes levied. Licenses and permits decreased \$87,637, or 60.5% from 2020 due to a decrease in building permits issued in 2020. Other receipts decreased \$191,417 primarily due to the Mississippi Ridges and Clearwater Development escrow collections in 2020 which are being paid back to the developer when certain conditions are met per the contract.

Total General Fund disbursements increased \$58,223, or 5.3%, from 2020. The most significant increase occurred in general government, which increased \$43,632. This increase was primarily due to a portion of the 2020 Mississippi Ridge and Plat 8 development security funds being released in 2021.

In 2021, the City had a net change in cash fund balance of \$88,424, which decreased the total to \$1,199,605. This cash fund balance represents over 13 months of 2022 General Fund disbursements budget, which exceeds the City's policy of having 50% of the subsequent year's budgeted disbursements in cash fund balance at year end.

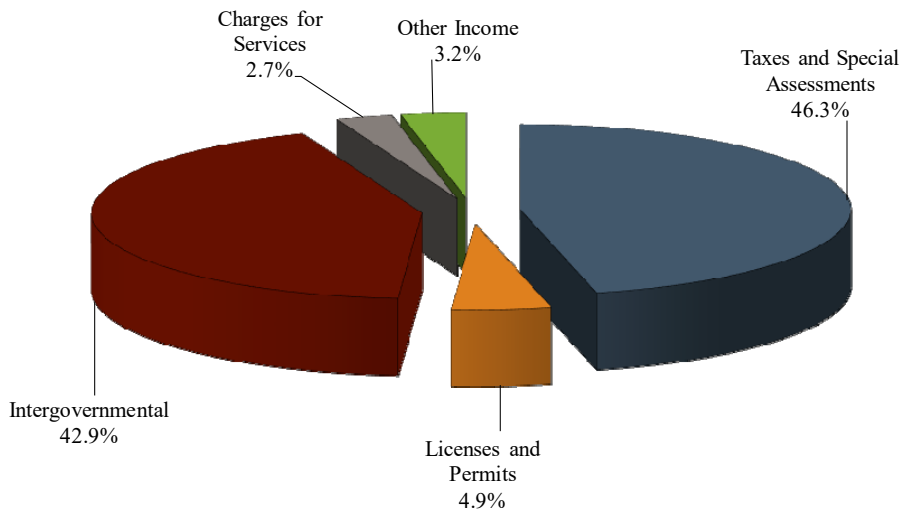


## City of Clearwater Financial Analysis

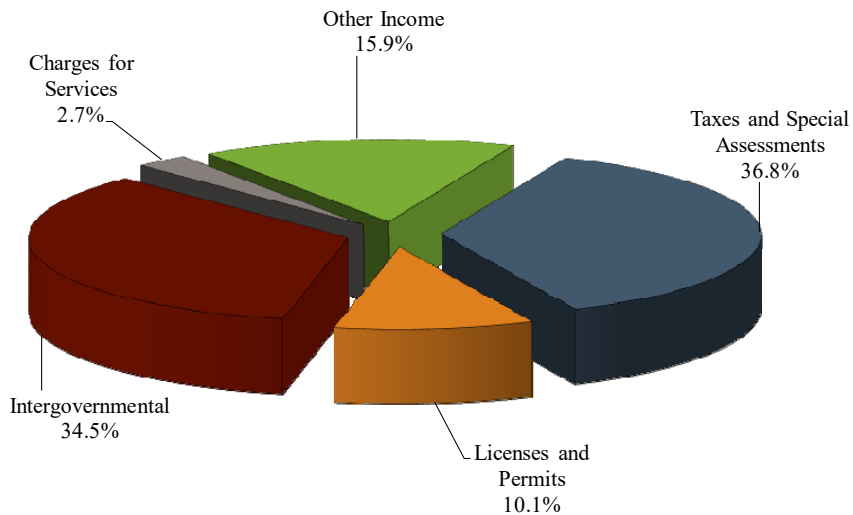
### General Fund Receipts and Disbursements (Continued)

The graphs below display the allocation of General Fund receipts by source for years 2021 and 2020. The largest source of the City's receipts was the general property taxes and special assessments at 46.3%. The second largest source of City receipts was in the intergovernmental category, which consists of LGA, state police and fire aid, Public Employees' Retirement Association (PERA) Aid, small cities assistance grant and CARES funding (42.9%). Other sources of receipts include licenses and permits, charges for services, and other income, which is made up of investment income, refunds, and reimbursements, escrow proceeds, and other miscellaneous receipts.

**2021 Receipts Components  
General Fund**



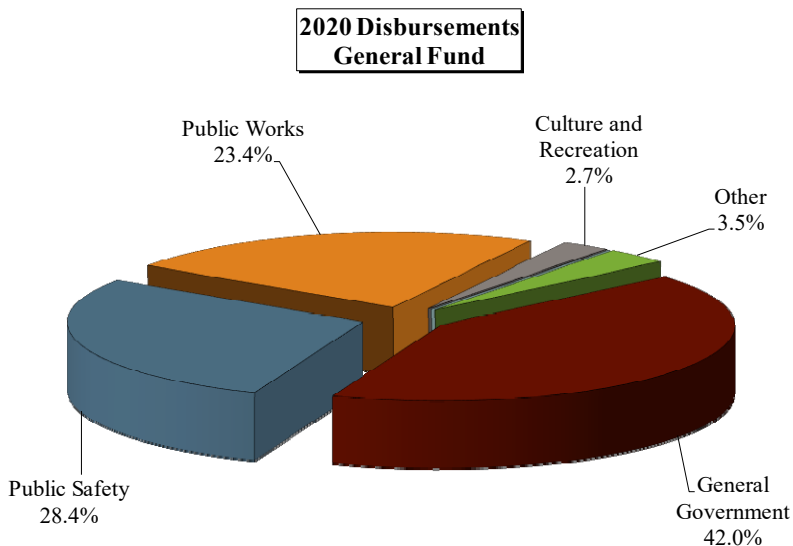
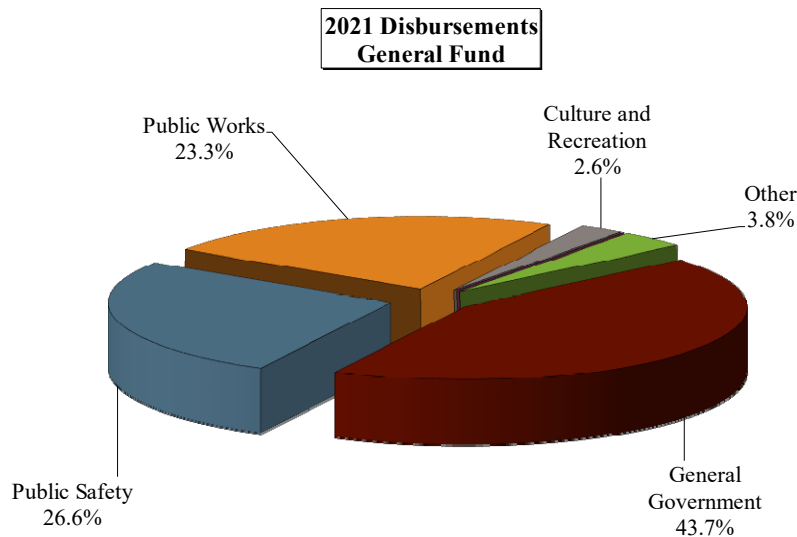
**2020 Receipts Components  
General Fund**



## City of Clearwater Financial Analysis

### General Fund Receipts and Disbursements (Continued)

The graphs below illustrate the General Fund disbursements by function for years 2021 and 2020. General government disbursements accounted for the largest portion of the General Fund disbursements at 43.7%. General government disbursements consist of disbursements related to the general operations of the City, including office employees' salaries and supplies, planning and zoning, accounting and auditing, and legal and engineering fees. The public safety function accounted for the second largest portion of the General Fund disbursements at 26.6%, which consists of disbursements for fire and police protection, building inspections and animal control. Public works disbursements consist of disbursements for road construction and maintenance (23.3%). Culture and recreation disbursements consist of disbursements for the library and parks (2.6%). Other disbursements consist primarily of insurance, which is not specific to one City function (3.8%). Disbursements by function did not vary much from 2020 to 2021.



**City of Clearwater  
Financial Analysis**

**General Fund Receipts and Disbursements (Continued)**

	Final Budget	Actual Amounts	Variance With Final Budget - Over (under)
<b>Revenues</b>			
Taxes and special assessments	\$ 541,790	\$ 545,111	\$ 3,321
Licenses and permits	63,200	57,153	(6,047)
Intergovernmental	461,513	505,551	44,038
Charges for services	19,000	32,337	13,337
Other income	15,500	37,395	21,895
Total receipts	1,101,003	1,177,547	76,544
<b>Disbursements</b>			
General government	363,140	509,716	146,576
Public safety	274,580	310,898	36,318
Public works	310,005	272,133	(37,872)
Culture and recreation	27,600	29,980	2,380
Other	29,490	43,906	14,416
Total disbursements	1,004,815	1,166,633	161,818
Excess of receipts over (under) disbursements	96,188	10,914	(85,274)
<b>Other Financing Uses</b>			
Transfers out	(96,188)	(99,338)	(3,150)
Net change in cash fund balances	\$ -	\$ (88,424)	\$ (88,424)

The General Fund actual receipts exceeded the City's budgeted amount by \$76,544. The primary area over budget was intergovernmental by \$44,038 due to the City being conservative on budgeting for grants. Other income was over budget \$21,895 due to conservative budgeting.

Total actual disbursements were over budget by \$161,818. General government was primarily over budget due to a portion of the 2020 Mississippi Ridge and Plat 8 development security funds being released in 2021 and one-time annexation expenses. Public safety was over budget primarily due to being over budget on some building inspector costs, which is expenditures of the building inspector for permits that are closed and or finalized. Public works was under budget due to needs not meeting what the City expected.

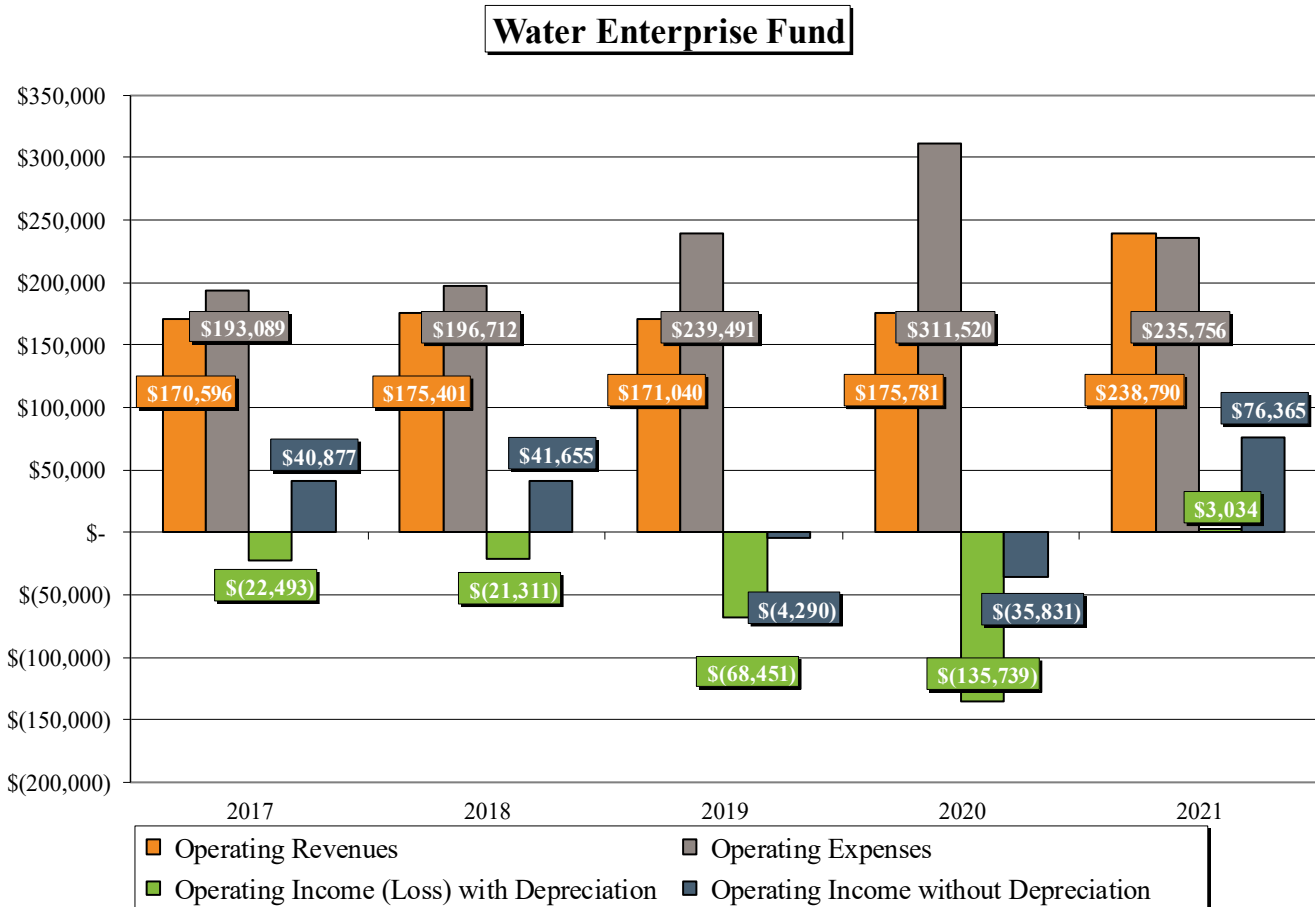
## City of Clearwater Financial Analysis

### Water Enterprise Fund

The graph below shows activity from the last five years for the Water Enterprise Fund. The City's Water Enterprise Fund generated income from operations without depreciation for the third time in the five years presented.

Water Enterprise Fund operating revenues increased \$63,009 from the prior year. This increase was due to an increase in water usage and increase in rates in 2021. Operating expenses decreased from 2020 by \$75,764, or 24.3% largely due to one-time payment in 2020 to a contractor related to a storm sewer project they built that was for the city. The costs were split between water/sewer due to a lack of reserves in the storm sewer fund. This resulted in an operating income of \$3,034, including depreciation expense of \$73,331. The fund nonoperating revenues and contributions resulted in an increase in net position of \$225,323.

The unrestricted net position balance increased to \$863,434 at December 31, 2021, compared to \$634,511 at December 31, 2020. The total amount of debt outstanding in the Water Fund at December 31, 2021 was \$1,944,512, including principal and interest. Principal and interest due in 2021, totals \$84,220.



## City of Clearwater Financial Analysis

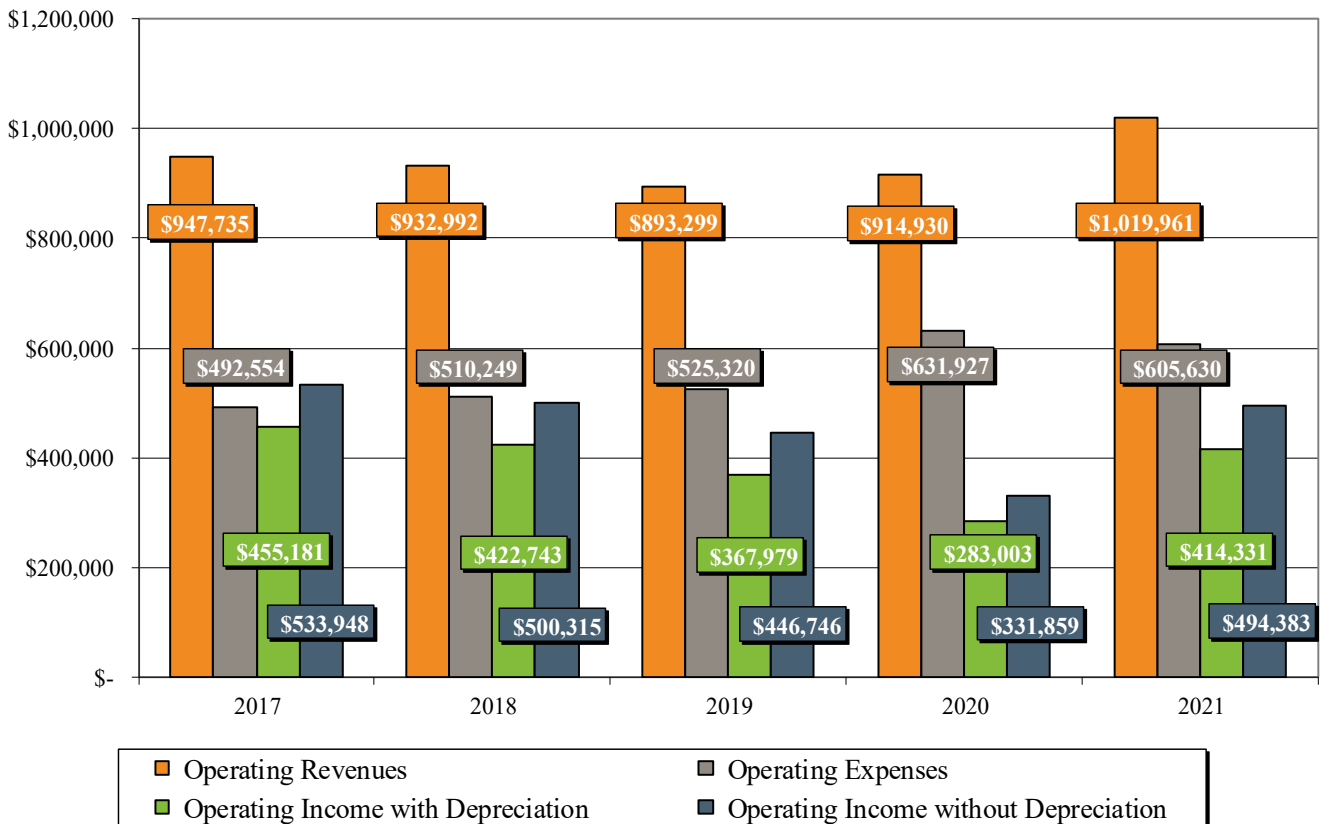
### Sewer Enterprise Fund

The following graph shows activity from the last five years for the Sewer Enterprise Fund. As indicated below, Sewer Enterprise Fund operating revenues exceeded operating expenses including depreciation expense again in 2021.

Sewer Enterprise Fund operating revenues increased by \$105,031 or 11.5% in 2021, due to an increase in usage and rates. Expenses decreased \$26,297 or 4.2%, largely due to a one-time payment in 2020 to a contractor related to a storm sewer project they built that was for the city. The costs were split between water/sewer due to a lack of reserves in the storm sewer fund. The fund had an operating income of \$414,331, including depreciation expense of \$80,052. This is an increase of \$131,328 from the prior year.

The cash and cash equivalents balance of the Sewer Enterprise Fund increased from the prior year by \$24,536. The cash balance of the Sewer Fund totaled \$809,043 at December 31, 2021. Cash and cash equivalents have increased each year over the five years presented, increasing from a balance of \$652,586 in 2017, to \$809,043 in 2021. The total amount of debt outstanding in the Sewer Fund at December 31, 2021, was \$2,971,818 including principal and interest. Principal and interest due in 2021, totals \$495,567.

**Sewer Enterprise Fund**



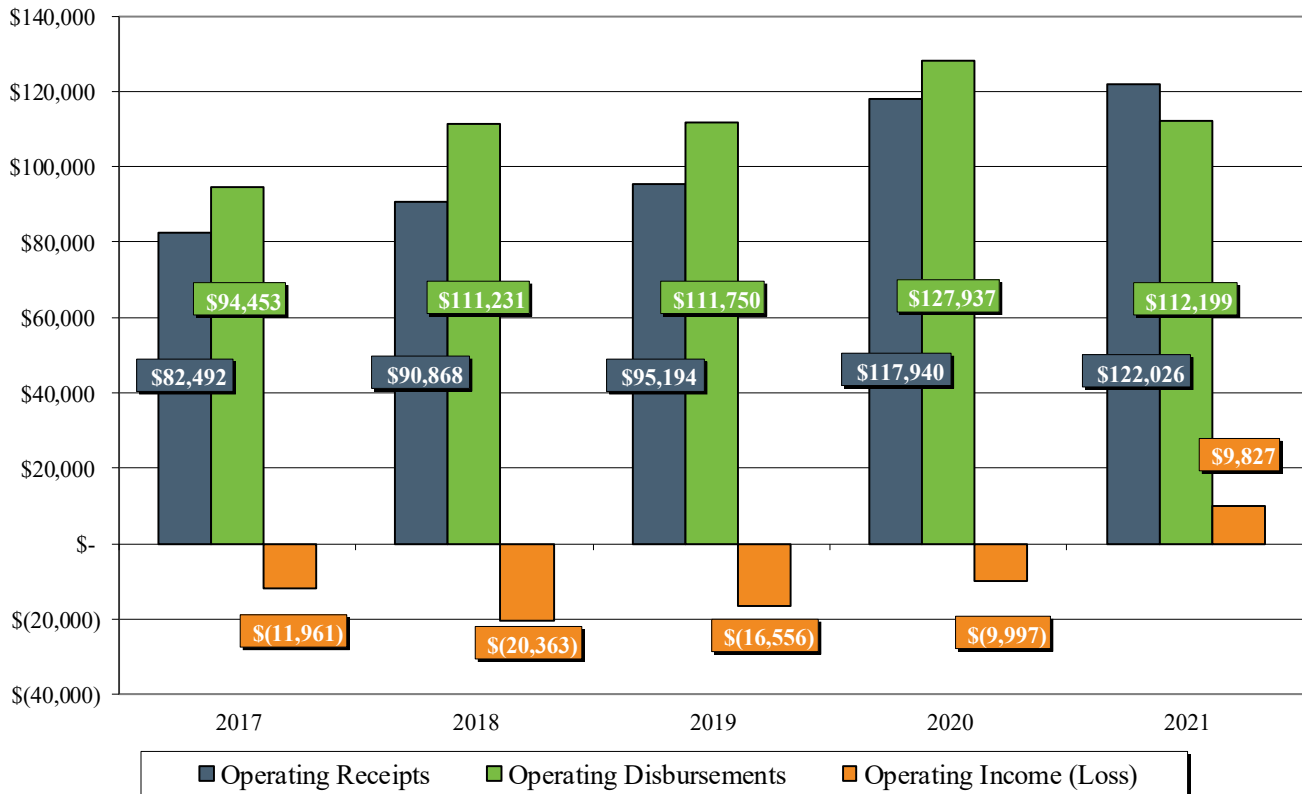


## City of Clearwater Financial Analysis

### Refuse and Recycling Enterprise Fund

Operating receipts increased while disbursements decreased in 2021. Operating receipts increased \$4,086, or 3.5% and operating disbursements decreased \$15,738, or 12.3%. The operating income for 2021, was \$9,827. Although the Refuse and Recycling Enterprise Fund has reported an operating loss for four over the past five years, the City receives county grants and state surcharges, which help to support the Fund. In 2021, the non-operating receipts offset the operating loss, and the fund had an increase in cash fund balance of \$21,456 before transfers. Cash fund balance was \$28,689 at December 31, 2021 due to operations of the year.

**Refuse and Recycling Enterprise Fund**



## **City of Clearwater Emerging Issue**

### **Executive Summary**

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your City.

### **Accounting Standard Update – GASB Statement No. 87 – *Leases***

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

**City of Clearwater**  
**Emerging Issue**

**Accounting Standard Update – GASB Statement No. 87 – *Leases* (Continued)**

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to basic financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to basic financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

**City of Clearwater  
Wright County, Minnesota  
Regulatory Financial Statements  
December 31, 2021**

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**City of Clearwater  
Elected Officials and Administration  
December 31, 2021**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2022
Kris Crandall	Council Member	December 31, 2022
Wayne Kruchten	Council Member	December 31, 2022
Richard Petty	Council Member	December 31, 2024
Lindsey Luhmann	Council Member	December 31, 2024
<u>Administration</u>		
Annita Smythe	City Administrator	Appointed
Deb Petty	Deputy Clerk	Appointed
Sarah Johnson	Accountant	Appointed

## Independent Auditor's Report

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

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the accompanying financial statements of each major fund, the discretely presented EDA and Sewer Authority component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota, as of and for the year ended December 31, 2021, and the related notes to financial statements, which collectively comprise the City's regulatory financial statements as listed in the Table of Contents. We have also audited the additional supplementary information as listed in the Table of Contents for the year ended December 31, 2021.

#### **Adverse Opinion on Accounting Principles Generally Accepted in the United States of America**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Clearwater, Minnesota, as of December 31, 2021, the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended.

#### **Unmodified Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective cash balances of each major fund, the discretely presented EDA and Sewer Authority component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota, as of December 31, 2021, and the respective changes in cash balances and cash flows, where applicable, thereof, for the year then ended in accordance with the regulatory basis of accounting as discussed in Note 1. In addition, in our opinion, the additional supplementary information referred to in the first paragraph presents fairly, in all material respects, the accounts receivable and accounts payable balances of the City's funds as of December 31, 2021, in conformity with the regulatory basis of accounting discussed in Note 1.

#### **Basis for Opinions**

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of the Minnesota Office of the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Basis for Opinions (Continued)**

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

### **Responsibilities of Management for the Financial Statements**

The City of Clearwater's management is responsible for the preparation and fair presentation of the financial statements in accordance with regulatory basis of accounting discussed in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Clearwater's internal control. Accordingly, no such opinion is expressed.



## **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Clearwater's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clearwater's regulatory financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the regulatory financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory 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 regulatory financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2022, on our consideration of the City of Clearwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Clearwater's internal control over financial reporting and compliance.

**BerganKDV, Ltd.**

Minneapolis, Minnesota

March 17, 2022

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**REGULATORY BASIS FINANCIAL STATEMENTS**

**City of Clearwater**  
**Statement of Balances Arising from Cash Transactions -**  
**Governmental Funds and Component Unit**  
**December 31, 2021**

	General Fund (100, 260, 417)	Special Revenue		Capital Project	
		Fire Department (230)	Local Option Sales Tax (270)	Public Works Capital (430)	Fire Capital Fund (420)
<b>Assets</b>					
Cash and investments	\$ 1,199,605	\$ 170,845	\$ 1,626,189	\$ 462,847	\$ 120,931
<b>Cash Fund Balances</b>					
Restricted	\$ 31,300	\$ 170,845	\$ 1,626,189	462,847	\$ 120,931
Unassigned	1,168,305	-	-	-	-
Total cash fund balances	\$ 1,199,605	\$ 170,845	\$ 1,626,189	\$ 462,847	\$ 120,931

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
\$ 591,382	\$ 4,171,799	\$ 196,208
\$ 591,382	\$ 3,003,494	\$ 196,208
-	1,168,305	-
\$ 591,382	\$ 4,171,799	\$ 196,208

**City of Clearwater**  
**Statement of Cash Receipts, Disbursements, and**  
**Changes in Cash Fund Balances -**  
**Governmental Funds and Component Unit**  
**Year Ended December 31, 2021**

	General Fund (100, 260, 417)	Special Revenue		Capital Projects	
		Fire Department (230)	Local Option Sales Tax (270)	Public Works Capital (430)	Fire Capital Fund (420)
<b>Receipts</b>					
General property taxes	\$ 533,423	\$ 152,146	\$ -	\$ 75,880	\$ 105
Cable franchise taxes	11,335	-	-	-	-
Miscellaneous taxes	-	-	308,459	-	-
Special assessments	353	-	-	-	-
Licenses and permits	57,153	-	-	-	-
Intergovernmental	505,551	74,927	-	-	-
Charges for services	32,337	200,139	-	-	-
Fine and forfeitures	9,171	-	-	-	-
Miscellaneous					
Interest income	(9,869)	-	-	-	-
Refunds and reimbursements	12,449	8,537	-	-	-
Donations	5,000	350	-	-	25,000
Other	20,644	-	-	-	-
Total receipts	<u>1,177,547</u>	<u>436,099</u>	<u>308,459</u>	<u>75,880</u>	<u>25,105</u>
<b>Disbursements</b>					
Current					
General government	509,716	-	12,962	-	-
Public safety	310,898	205,604	-	-	-
Public works	253,982	-	-	-	-
Culture and recreation	29,980	-	-	-	-
Economic development	-	-	-	-	-
Miscellaneous	43,906	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Capital outlay					
Public safety	-	-	-	-	466,204
Public works	18,151	-	-	-	-
Culture and recreation	-	-	72,995	-	-
Total disbursements	<u>1,166,633</u>	<u>205,604</u>	<u>85,957</u>	<u>-</u>	<u>466,204</u>
Excess of receipts over (under) disbursements	10,914	230,495	222,502	75,880	(441,099)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital asset	-	-	-	-	-
Transfers in	-	-	-	-	50,000
Transfers out	(99,338)	(149,030)	-	-	-
Total other financing sources (uses)	<u>(99,338)</u>	<u>(149,030)</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Net change in cash fund balances	(88,424)	81,465	222,502	75,880	(391,099)
<b>Cash Fund Balances</b>					
Beginning of year	<u>1,288,029</u>	<u>89,380</u>	<u>1,403,687</u>	<u>386,967</u>	<u>512,030</u>
End of year	<u>\$ 1,199,605</u>	<u>\$ 170,845</u>	<u>\$ 1,626,189</u>	<u>\$ 462,847</u>	<u>\$ 120,931</u>

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
\$ 358,662	\$ 1,120,216	\$ 81,543
-	11,335	-
15	308,474	-
80,101	80,454	-
-	57,153	-
-	580,478	-
-	232,476	-
-	9,171	-
-	(9,869)	-
3,606	24,592	-
-	30,350	-
11,163	31,807	-
<u>453,547</u>	<u>2,476,637</u>	<u>81,543</u>
-	522,678	-
-	516,502	-
-	253,982	-
96,623	126,603	-
-	-	20,442
-	43,906	-
207,000	207,000	-
96,089	96,089	-
-	466,204	-
51,635	69,786	-
-	72,995	-
<u>451,347</u>	<u>2,375,745</u>	<u>20,442</u>
2,200	100,892	61,101
20,000	20,000	-
99,030	149,030	-
-	(248,368)	-
<u>119,030</u>	<u>(79,338)</u>	<u>-</u>
121,230	21,554	61,101
<u>470,152</u>	<u>4,150,245</u>	<u>135,107</u>
<u>\$ 591,382</u>	<u>\$ 4,171,799</u>	<u>\$ 196,208</u>



**City of Clearwater**  
**Statement of Balances Arising from Cash Transactions -**  
**Proprietary Funds and Component Unit**  
**December 31, 2021**

	<u>Water (600)</u>	<u>Sewer (601)</u>	<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 895,515	\$ 809,043	\$ 28,689	\$ 55,510
Total assets	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 28,689</u>	<u>\$ 55,510</u>
 <b>Net Cash Position</b>				
Unrestricted	\$ 895,515	\$ 809,043	\$ 28,689	\$ 55,510
Total net cash position	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 28,689</u>	<u>\$ 55,510</u>

<u>Total</u>	<u>Sewer Authority Component Unit</u>
<u>\$ 1,788,757</u>	<u>\$ 633,866</u>
<u><u>\$ 1,788,757</u></u>	<u><u>\$ 633,866</u></u>
<u>\$ 1,788,757</u>	<u>\$ 633,866</u>
<u><u>\$ 1,788,757</u></u>	<u><u>\$ 633,866</u></u>

**City of Clearwater**  
**Statement of Receipts, Disbursements, and**  
**Changes in Net Cash Position -**  
**Proprietary Funds and Component Unit**  
**Year Ended December 31, 2021**

	Water (600)	Sewer (601)	Refuse and Recycling (603)	Storm Sewer (651)
Operating receipts				
Charges for services	\$ 234,750	\$ 998,691	\$ 119,924	\$ 23,850
Connection fees, permits, and penalties	-	4,857	-	-
Misc. operating revenues	1,820	10,614	2,102	105
Total operating receipts	<u>236,570</u>	<u>1,014,162</u>	<u>122,026</u>	<u>23,955</u>
Operating disbursements				
Personal services	101,459	119,028	12,318	-
Contracted services	762	-	89,182	-
Supplies and meters	16,548	4,511	1,036	-
Professional services	18,953	-	1,211	1,857
Utilities	17,545	5,965	-	-
Repairs and maintenance	5,563	30,675	-	1
Sewer authority charges	-	356,417	-	-
Miscellaneous expenses	15,489	10,727	8,452	-
Total operating disbursements	<u>176,319</u>	<u>527,323</u>	<u>112,199</u>	<u>1,858</u>
Excess of operating receipts over (under) operating disbursements	60,251	486,839	9,827	22,097
Nonoperating receipts (disbursements)				
Interest and investment income	-	-	-	-
Property taxes	53,513	-	-	-
Intergovernmental	10,000	-	3,006	-
Trunk and access charges	23,750	35,750	-	-
Other	12,505	-	8,623	-
Interest expense	(18,513)	(55,034)	-	-
Total nonoperating receipts (disbursements)	<u>81,255</u>	<u>(19,284)</u>	<u>11,629</u>	<u>-</u>
Net receipts (disbursements) before capital outlay, debt transactions, transfers, and contributions	141,506	467,555	21,456	22,097
Capital outlay	(694,546)	(9,269)	-	-
Debt principal	(35,000)	(440,000)	-	-
Issuance of long-term debt	694,634	-	-	-
Contributions from EDA	6,250	6,250	-	-
Transfers in	99,338	-	-	-
Change in net cash position	212,182	24,536	21,456	22,097
Net cash position				
Beginning of year	<u>683,333</u>	<u>784,507</u>	<u>7,233</u>	<u>33,413</u>
End of year	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 28,689</u>	<u>\$ 55,510</u>

See notes to regulatory financial statements.

<u>Total</u>	<u>Sewer Authority Component Unit</u>
\$ 1,377,215	\$ 429,907
4,857	-
14,641	4,842
<u>1,396,713</u>	<u>434,749</u>
232,805	214,151
89,944	-
22,095	84,874
22,021	83,469
23,510	70,845
36,239	-
356,417	-
34,668	1,995
<u>817,699</u>	<u>455,334</u>
579,014	(20,585)
-	339
53,513	-
13,006	-
59,500	-
21,128	2,500
<u>(73,547)</u>	<u>-</u>
<u>73,600</u>	<u>2,839</u>
652,614	(17,746)
(703,815)	(160,990)
(475,000)	-
694,634	-
12,500	-
99,338	-
<u>280,271</u>	<u>(178,736)</u>
<u>1,508,486</u>	<u>812,602</u>
<u>\$ 1,788,757</u>	<u>\$ 633,866</u>

**City of Clearwater**  
**Statement of Cash Flows - Cash Basis -**  
**Proprietary Funds and Component Unit**  
**Year Ended December 31, 2021**

	<u>Water (600)</u>	<u>Sewer (601)</u>	<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>
<b>Cash Flows - Operating Activities</b>				
Receipts from customers	\$ 236,570	\$ 1,014,162	\$ 122,026	\$ 23,955
Payments to suppliers	(74,860)	(408,295)	(99,881)	(1,858)
Payments to employees	(101,459)	(119,028)	(12,318)	-
Other operating payments	-	-	-	-
Net cash flows - operating activities	<u>60,251</u>	<u>486,839</u>	<u>9,827</u>	<u>22,097</u>
<b>Cash Flows - Noncapital Financing Activities</b>				
Other revenue	36,255	35,750	8,623	-
Property taxes	53,513	-	-	-
Intergovernmental	10,000	-	3,006	-
Contributions from EDA	6,250	6,250	-	-
Transfers from other funds	99,338	-	-	-
Net cash flows - noncapital financing activities	<u>205,356</u>	<u>42,000</u>	<u>11,629</u>	<u>-</u>
<b>Cash Flows - Capital and Related Financing Activities</b>				
Purchases of capital assets	(694,546)	(9,269)	-	-
Principal paid on capital debt	(35,000)	(440,000)	-	-
Interest paid on capital debt	(18,513)	(55,034)	-	-
Bond proceeds	694,634	-	-	-
Other receipts	-	-	-	-
Net cash flows - capital and related financing activities	<u>(53,425)</u>	<u>(504,303)</u>	<u>-</u>	<u>-</u>
<b>Cash Flows - Investing Activities</b>				
Interest and dividends	-	-	-	-
Net change in cash and cash equivalents	212,182	24,536	21,456	22,097
<b>Cash and Cash Equivalents</b>				
Beginning of year	<u>683,333</u>	<u>784,507</u>	<u>7,233</u>	<u>33,413</u>
End of year	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 28,689</u>	<u>\$ 55,510</u>

<u>Total</u>	<u>Sewer Authority Component Unit</u>
\$ 1,396,713	\$ 429,907
(584,894)	(241,183)
(232,805)	(214,151)
-	4,842
579,014	(20,585)
80,628	-
53,513	
13,006	
12,500	-
99,338	-
258,985	-
(703,815)	(160,990)
(475,000)	-
(73,547)	-
694,634	-
-	2,500
(557,728)	(158,490)
-	339
280,271	(178,736)
1,508,486	812,602
\$ 1,788,757	\$ 633,866

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**City of Clearwater**  
**Notes to Regulatory Financial Statements**

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

**A. Reporting Entity**

The City of Clearwater is a statutory city governed by an elected mayor and four council members. A mayor and four council members are elected by the voters of the City for two year and four year terms, respectively. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

The financial statements present the City and its component units. The City includes all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the City are financially accountable and are included within the basic financial statements of the City because of the significance of their operational or financial relationships with the City.

The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens, on the City.

As a result of applying the component unit definition criteria above, certain organizations have been defined and are presented in this report as follows:

Discretely Presented Component Units – Entails reporting the component unit financial data in a column separate from the financial data of the City.

The specific entities are identified as follows:

**1. Clearwater Economic Development Authority (EDA)**

The Clearwater Economic Development Authority (EDA) is a legal entity separate from the City. The Clearwater EDA is governed by a five member board consisting of two members of City Council and three members of the general public. The City of Clearwater has the authority to approve the levy for the Clearwater EDA. Separate financial statements are included in this report for the EDA to emphasize that it is legally separate from the City.

**2. Clear Lake/Clearwater Sewer Authority**

In 1975, the City entered into a joint venture agreement with the City of Clear Lake to establish a wastewater disposal facility for the Cities of Clearwater and Clear Lake (the "Cities"). All user charges and assessments required to be made as a result of the operation and use of the wastewater disposal system by the Clear Lake/Clearwater Sewer Authority (the "Authority") shall be levied and collected by the Cities. The wastewater disposal facility, land, and easements previously held by the Authority were transferred to the Cities to be held by them as tenants in common for use and operation by the Authority. Certain proceeds of the 1977 Improvement Bonds, all proceeds of the Public Facilities Authority (PFA) notes and all proceeds from the 2007A Temporary Sewer Bonds were transferred to the Authority to pay for the City's portion of construction costs. Because there is an explicit measurable equity interest in the joint venture, the equity interest is reported in the Sewer Enterprise Fund Accrual Statements.



**City of Clearwater**  
**Notes to Regulatory Financial Statements**

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

**A. Reporting Entity (Continued)**

**2. Clear Lake/Clearwater Sewer Authority (Continued)**

The Authority is a legal entity separate from the City. The Authority is reported as a discretely presented component unit because the governing bodies for the Authority and the City are not substantially the same and the City has the majority equity interest in the Authority. The members of the governing board of the Authority are appointed by the city council of both the City of Clearwater and the City of Clear Lake, consisting of two council members from both councils and a member at large.

Separate accrual basis audited financial statements in accordance with accounting principles generally accepted in the United States of America are issued for the Authority and annual financial statements are submitted to the State of Minnesota. These financial statements may be obtained from the City Administrator at the following address:

Clearwater City Hall  
605 County Road 75 NW  
Clearwater, MN 55320

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of the City are maintained and the accompanying financial statements have been prepared on a regulatory basis of accounting prescribed by the Minnesota Office of the State Auditor. The regulatory basis of accounting is defined in the *Reporting and Publishing Requirements for City Audited Financial Statements for Cities Under 2,500 in Population Reporting on the Cash or Regulatory Basis of Accounting* issued by the State of Minnesota Office of the State Auditor on December 17, 2004. The regulatory basis allows revenues to be recognized when received rather than when earned, and expenditures to be recognized when paid rather than when the obligations are incurred. Separate accrual statements have been issued for the Water and Sewer Enterprise Funds.

**Description of Funds:**

Major Governmental Funds:

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

Fire Department Special Revenue Fund – This fund accounts for costs associated with providing fire protection services.

Local Option Sales Tax Special Revenue Fund – This fund accounts for proceeds from the local sales tax imposed by the City and expenditures allowable under the ordinance approving this tax.

Public Works Capital Project Fund – This fund accounts for costs associated with the purchase and replacement of the City's public works vehicles and equipment.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

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

**B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Description of Funds (Continued):**

Major Governmental Funds (Continued):

Fire Capital Project Fund – This fund accounts for costs associated with the purchase and replacement of the City's fire vehicles and equipment.

Proprietary Funds:

Water Enterprise Fund – This fund accounts for the operations of the City's water utility.

Sewer Enterprise Fund – This fund accounts for the operations of the City's sewer utility.

Refuse and Recycling Enterprise Fund – This fund accounts for the operations of the City's refuse and recycling utility.

Storm Sewer Enterprise Fund – This fund accounts for the operations of the City's storm sewer utility.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and repairs and maintenance on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**C. Cash and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The cash and investments of the EDA Component Unit are pooled with the City's cash and investments.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

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

**D. Property Tax Collection Calendar**

The City levies its property tax for the subsequent year during the month of December. December 28 is the last day the City can certify a tax levy to the County Auditor for collection the following year. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. The property tax is recorded as revenue when it becomes measurable and available. Wright County is the collecting agency for the levy and remits the collections to the City three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Taxes not collected as of December 31 each year are shown as delinquent taxes receivable.

The County Auditor prepares the tax list for all taxable property in the City, applying the applicable tax rate to the tax capacity of individual properties, to arrive at the actual tax for each property. The County Auditor also collects all special assessments, except for certain prepayments paid directly to the City.

The County Auditor submits the list of taxes and special assessments to be collected on each parcel of property to the County Treasurer in January of each year.

**E. Cash Fund Balance**

**1. Classification**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- **Restricted Fund Balance** – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, laws, or regulations of other governments or b) imposed by law through enabling legislation.
- **Assigned Cash Fund Balance** – These are amounts constrained by the City's intent to be used for specific purposes, but are not restricted.
- **Unassigned Cash Fund Balance** – These are residual amounts in the General Fund not reported in any other classification. The General Fund is the only fund that can report a positive unassigned cash fund balance. Other funds would report a negative unassigned cash fund balance should the total of restricted fund balances exceed the total net resources of that fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources and then use unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the City's policy to use resources in the following order: committed, assigned, and unassigned.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

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

**E. Cash Fund Balance (Continued)**

**2. Minimum Fund Balance**

The City's target General Fund balance is to maintain an unrestricted cash fund balance of 50% of its annual General Fund budget. The City will not allow its unrestricted cash fund balance to decrease below 40% of the annual General Fund budget. Consideration of financial resources, tax revenue collection cycles, predictability of receipts, and the volatility of disbursements shall be considered when striving to maintain the desired level of cash fund balance.

**F. Budgetary Information**

1. In August of each year, City staff submits to the City Council, a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a motion after obtaining taxpayer comments.
4. The budget for the General, Special Revenue, Debt Service, and Capital Project Funds were adopted on a basis consistent with the regulatory basis of accounting.
5. Expenditures may not legally exceed budgeted appropriations at the fund level. No fund's budget can be increased without City Council approval. The City Council may authorize transfer of budgeted amounts between departments within any fund. Management may amend budgets within a fund level, so long as the total department budget is not changed.
6. Annual appropriated budgets are adopted during the year for the General, Special Revenue, Debt Service, and Capital Project Funds.
7. Budgeted amounts are as originally adopted or as amended by the City Council. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Excess of Disbursements over Appropriations**

Budgetary control for governmental funds is established by each fund's total appropriations. Disbursements exceeded appropriations in the following funds for the year ending December 31, 2021.

	<u>Appropriation</u>	<u>Disbursements</u>
General Fund	\$ 1,004,815	\$ 1,166,633

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Cash balances of the City's funds including the EDA component unit, are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed on the financial statements as "cash and cash equivalents" or "investments." For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below and on the following page.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City has a policy that requires the District’s deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of December 31, 2021, the City’s bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution’s trust department or agent and in the City’s name.

The City's deposits had a book balance as follows:

Checking	\$ 2,659,087
Savings	1,671,972
Certificates of deposits	<u>503,747</u>
Total deposits	<u><u>\$ 4,834,806</u></u>

**B. Investments**

As of December 31, 2021, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI Y	\$ 10,285	N/A	N/A
FHLMC MTN	100,065	01/13/22	Aaa
US Treasury Note	101,727	02/15/23	Aaa
US Treasury Note	51,535	01/31/24	Aaa
US Treasury Note	148,043	02/15/24	Aaa
US Treasury Note	52,076	02/15/24	Aaa
US Treasury Note	150,528	02/28/25	Aaa
US Treasury Note	49,170	03/31/25	Aaa
US Treasury Note	53,013	05/31/25	Aaa
US Treasury Note	51,399	06/30/26	Aaa
US Treasury Note	50,566	08/15/26	Aaa
US Treasury Note	50,846	10/31/26	Aaa
US Treasury Note	51,720	11/15/26	Aaa
Ishares Treasury Bond	207,000	N/A	N/A
4M Fund (General)	221	N/A	N/A
4M Fund (2019 SEA Project [Municipal Advisory Account])	<u>193,614</u>	N/A	N/A
Total	<u><u>\$ 1,321,808</u></u>		

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments to those specified in the above statutes.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market value interest rates. The City's investment policy indicates they will structure their investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of government's investment in a single issuer. The City's investment policy indicates the investment portfolio should be diversified so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. The policy further indicates the City will take every measure to keep the concentration of credit risk below 25% of the total investments. As of December 31, 2021, the City was exposed to concentration of credit risk because individual investments, as noted in the table below, exceeded 5% of the City's total investment portfolio.

Investments	Concentration of Credit Risk
FHLMC	7.6 %

**Custodial Credit Risk – Investments:** For an investment, this is the risk in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy states all investments must be fully insured and registered in the name of the City. Some City Securities held by the City's broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City's portfolio.

The City has the following recurring fair value measurements as of December 31, 2021:

- \$1,027,908 of investments are valued using quoted market prices (Level 1 inputs)
- \$100,065 of investments are valued using a matrix pricing model (Level 2 inputs)

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Balances**

As of December 31, 2021, the City had deposits and investments as follows:

Deposits (Note 3.A.)	\$ 4,834,806
Petty cash	150
Investments (Note 3.B.)	<u>1,321,808</u>
Total deposits and investments	<u><u>\$ 6,156,764</u></u>

Deposits and investments are presented in the December 31, 2021, regulatory financial statements as follows:

Statement of balances arising from cash	
Transactions - governmental funds	
Cash and investments	\$ 4,171,799
Cash and investments - component unit	196,208
Statement of balances arising from cash	
Transactions - proprietary funds	
Cash and cash equivalents - Water Fund	895,515
Cash and cash equivalents - Sewer Fund	809,043
Cash and cash equivalents - Refuse and Recycling Fund	28,689
Cash and cash equivalents - Storm Sewer	<u>55,510</u>
Total deposits and investments	<u><u>\$ 6,156,764</u></u>

**NOTE 4 – LONG-TERM DEBT**

**A. General Obligation Bonds and Equipment Certificates**

The City issues G.O. bonds to provide for financing street improvements and fire equipment. Debt service is covered respectively by special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 15 year serial bonds with equal debt service payments each year.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**B. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within 1 Year
Long-term liabilities						
Governmental funds						
G.O. Bonds, including						
Refunding bond						
2015 Improvement Bond	05/15/15	3.00%-3.25%	\$ 1,840,000	12/01/35	\$ 1,330,000	\$ 85,000
2019 G.O. Improvement Bond	8/1/2019	3.00%	1,030,000	12/15/39	960,000	40,000
G.O. Equipment Certificates						
2020 G.O. Equipment Certificate	8/19/2020	0.95%-1.45%	790,000	12/15/29	708,000	85,000
Total					<u>2,998,000</u>	<u>210,000</u>
Compensated absences						
Total Governmental Funds					<u>20,937</u>	<u>-</u>
Proprietary funds						
G.O. revenue bonds and loans						
2008 G.O. PFA Sewer Revenue Note	10/28/08	1.70%	7,700,085.00	08/20/27	2,803,000	448,000
2021 G.O. PFA Water Revenue Note	06/24/21	1.00%	1,114,021*	08/20/41	694,634	25,021
G.O. bonds						
2015 G.O. Improvement Bond	05/15/15	3.00%-3.25%	780,000	12/01/35	570,000	35,000
Total					<u>4,067,634</u>	<u>508,021</u>
Compensated absences						
Total Proprietary Funds					<u>11,143</u>	<u>10,384</u>
Total all long-term liabilities						
					<u>\$ 7,097,714</u>	<u>\$ 728,405</u>

\*The G.O. PFA Water Revenue Note project is not yet completed, resulting in only \$694,634 of the total award of \$1,114,021 being drawn.

Long-term bonded indebtedness listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

The General Fund typically liquidates the liability related to governmental funds compensated absences.



**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2021, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental funds				
Bonds payable				
G.O. improvement bonds	\$ 2,415,000	\$ -	\$ 125,000	\$ 2,290,000
Equipment certificates				
G.O. equipment certificates	790,000	-	82,000	708,000
Compensated absences	14,764	21,913	15,740	20,937
Total governmental activities	<u>3,219,764</u>	<u>21,913</u>	<u>222,740</u>	<u>3,018,937</u>
Proprietary funds				
Note from direct borrowing				
G.O. PFA sewer revenue note	3,243,000	-	440,000	2,803,000
G.O. PFA water revenue note	-	694,634	-	694,634
Bonds payable				
G.O. improvement bonds	605,000	-	35,000	570,000
Compensated absences	15,111	12,607	15,952	11,143
Total proprietary funds	<u>3,863,111</u>	<u>707,241</u>	<u>490,952</u>	<u>4,078,777</u>
Total long-term liabilities	<u>\$ 7,082,875</u>	<u>\$ 729,154</u>	<u>\$ 713,692</u>	<u>\$ 7,097,714</u>

**D. Annual Debt Service Obligations**

Years Ending December 31,	<u>Governmental Funds</u>			<u>Proprietary Funds</u>		
	<u>G.O. Improvement Bonds</u>			<u>G.O. Improvement Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 125,000	\$ 69,475	\$ 194,475	\$ 35,000	\$ 17,463	\$ 52,463
2023	125,000	65,725	190,725	35,000	16,413	51,413
2024	130,000	61,975	191,975	35,000	15,363	50,363
2025	130,000	58,075	188,075	35,000	14,313	49,313
2026	135,000	54,175	189,175	35,000	13,263	48,263
2027-2031	740,000	207,575	947,575	205,000	49,063	254,063
2032-2036	705,000	90,088	795,088	190,000	15,650	205,650
2037-2039	200,000	12,150	212,150	-	-	-
Total	<u>\$ 2,290,000</u>	<u>\$ 619,238</u>	<u>\$ 2,909,238</u>	<u>\$ 570,000</u>	<u>\$ 141,528</u>	<u>\$ 711,528</u>

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Annual Debt Service Obligations (Continued)**

Years Ending December 31,	Governmental Funds			Proprietary Funds		
	G.O. Equipment Certificate			Note from Direct Borrowing		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 85,000	\$ 8,536	\$ 93,536	\$ 473,021	\$ 54,303	\$ 527,324
2023	86,000	7,729	93,729	507,000	50,854	557,854
2024	87,000	6,892	93,892	516,000	42,613	558,613
2025	88,000	6,085	94,085	524,000	34,226	558,226
2026	89,000	5,248	94,248	533,000	25,703	558,703
2027-2031	273,000	7,946	280,946	765,000	46,624	811,624
2032-2036	-	-	-	292,000	24,180	316,180
2037-2041	-	-	-	307,000	9,280	316,280
Total	<u>\$ 708,000</u>	<u>\$ 42,436</u>	<u>\$ 750,436</u>	<u>\$ 3,917,021</u>	<u>\$ 287,783</u>	<u>\$ 4,204,804</u>

**NOTE 5 – CASH FUND BALANCES**

Cash fund balances and net cash position are classified as follows to reflect the limitations and restrictions of the respective funds:

	General	Fire Department	Local Option Sales Tax	Public Works Capital	Fire Department Capital	Other Governmental Funds	Total Governmental Funds
Restricted for							
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 227,460	\$ 227,460
Voter approved projects	-	-	1,626,189	-	-	-	1,626,189
Fire Department	-	170,845	-	-	-	-	170,845
Capital projects	-	-	-	462,847	120,931	325,255	909,033
Park development	-	-	-	-	-	38,667	38,667
Developer escrow	31,300	-	-	-	-	-	31,300
Total restricted	<u>31,300</u>	<u>170,845</u>	<u>1,626,189</u>	<u>462,847</u>	<u>120,931</u>	<u>591,382</u>	<u>3,003,494</u>
Unassigned	<u>1,168,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,168,305</u>
Total	<u>\$ 1,199,605</u>	<u>\$ 170,845</u>	<u>\$ 1,626,189</u>	<u>\$ 462,847</u>	<u>\$ 120,931</u>	<u>\$ 591,382</u>	<u>\$ 4,171,799</u>

The EDA Component Unit has restricted cash fund balance of \$196,208 for economic development.

	Water	Sewer	Refuse and Recycling	Storm Sewer	Total Proprietary Funds
Unrestricted	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 28,689</u>	<u>\$ 55,510</u>	<u>\$ 1,788,757</u>

The Sewer Authority Component Unit has unrestricted cash position of \$633,866.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 6 – RISK MANAGEMENT**

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2021 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2021, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 7 – PENSION PLANS**

**Public Employees' Retirement Association**

**A. Plan Description**

All full-time and certain part-time employees of the City of Any Town are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (accounted for in the General Employees Fund), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security. All police officers, firefighters and peace officers who qualify for membership by statute are covered by the Police and Fire Plan.

PERA provides retirement benefits as well as disability benefits to members and survivor benefits upon death of eligible members. Benefits are established by state statute. Benefits for members of the General Employees Plan vest after 5 years of credited service. The defined retirement plan benefits are based on a member's highest average salary for any 5 years of allowable service, age, and years of credit at termination of service.

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated Plan member is 1.2 % for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first ten years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

For all General Employee Plan members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Method 2 provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989, or age 66 (the age for unreduced Social Security benefits), for those first hired on or after that date. Early retirement may begin at age 55 with an actuarial reduction (about six percent per year) for members retiring prior to full retirement age.

Normal retirement age is 55 for Police and Fire plan members and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement with an actuarial reduction in the member's benefit.

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Plan. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**City of Clearwater**  
**Notes to Regulatory Financial Statements**

**NOTE 7 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Coordinated Plan members were required to contribute 6.5% of their annual covered salary in 2021. In 2021, the City was required to contribute the following percentages of annual covered payroll: 7.5% for Coordinated Plan members.

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2021, 2020, and 2019, were \$30,107, \$29,335, and \$26,985, respectively.

**NOTE 8 – INTERFUND TRANSFERS**

Transfers during the year ended December 31, 2021, were as follows:

	Transfers In			
	Fire Capital	Other Governmental Funds	Enterprise Funds	Total
Transfers out				
General Fund	\$ -	\$ -	\$ 99,338	\$ 99,338
Fire Department	50,000	99,030	-	149,030
Total	\$ 50,000	\$ 99,030	\$ 99,338	\$ 248,368

Transfers were made to cover cost of capital purchases and enterprise fund operations.

**NOTE 9 – COMMITMENTS**

The City is in the process of constructing improvements on the I94 Watermain project and have remaining commitment of \$238,415.

**NOTE 10 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2022.

**SUPPLEMENTARY INFORMATION**

**City of Clearwater**  
**Schedule of Receipts, Disbursements, and Changes**  
**in Cash Fund Balances - Budget and Actual -**  
**General Fund**  
**Year Ended December 31, 2021**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Receipts</b>				
Taxes				
Property taxes	\$ 528,790	\$ 528,790	\$ 533,423	\$ 4,633
Cable franchise taxes	10,000	10,000	11,335	1,335
Total taxes	<u>538,790</u>	<u>538,790</u>	<u>544,758</u>	<u>5,968</u>
Special assessments	3,000	3,000	353	(2,647)
Intergovernmental				
State grants and aids				
Local government aid	346,888	346,888	346,888	-
Small cities assistance	-	18,437	36,874	18,437
Other state aid	-	-	22,451	22,451
Federal grants and aids				
ARPA federal aid	-	96,188	99,338	3,150
Total intergovernmental	<u>346,888</u>	<u>461,513</u>	<u>505,551</u>	<u>44,038</u>
License and permits				
Licenses and permits	12,000	12,000	14,882	2,882
Building permits	50,000	50,000	40,096	(9,904)
Assessment searches	1,200	1,200	2,175	975
Total licenses and permits	<u>63,200</u>	<u>63,200</u>	<u>57,153</u>	<u>(6,047)</u>
Charges for services				
Planning and zoning	4,000	4,000	20,945	16,945
Miscellaneous	15,000	15,000	11,392	(3,608)
Total charges for services	<u>19,000</u>	<u>19,000</u>	<u>32,337</u>	<u>13,337</u>
Fine and forfeitures	-	-	9,171	9,171
Miscellaneous				
Refunds and reimbursements	500	500	12,449	11,949
Donations	-	-	5,000	5,000
Interest income	15,000	15,000	(9,869)	(24,869)
Escrow agreement proceeds	-	-	20,644	20,644
Total miscellaneous	<u>15,500</u>	<u>15,500</u>	<u>28,224</u>	<u>12,724</u>
Total receipts	<u>986,378</u>	<u>1,101,003</u>	<u>1,177,547</u>	<u>76,544</u>

**City of Clearwater**  
**Schedule of Receipts, Disbursements, and Changes**  
**in Cash Fund Balances - Budget and Actual -**  
**General Fund**  
**Year Ended December 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Disbursements</b>				
General government				
Mayor and council				
Current	\$ 34,220	\$ 34,220	\$ 14,975	\$ (19,245)
Clerk/treasurer				
Current	193,590	193,590	186,951	(6,639)
Elections				
Current	-	-	378	378
Audit and accounting				
Current	27,500	27,500	26,960	(540)
Legal				
Current	12,000	12,000	15,226	3,226
Engineering				
Current	15,000	15,000	14,855	(145)
Assessor				
Current	11,500	11,500	12,306	806
Planning and zoning				
Current	12,030	12,030	5,930	(6,100)
Miscellaneous general government				
Current	57,300	57,300	232,135	174,835
Total general government	<u>363,140</u>	<u>363,140</u>	<u>509,716</u>	<u>146,576</u>
Public safety				
Police protection				
Current	233,800	233,800	247,208	13,408
Building inspection				
Current	40,530	40,530	63,690	23,160
Animal control				
Current	250	250	-	(250)
Total public safety	<u>274,580</u>	<u>274,580</u>	<u>310,898</u>	<u>36,318</u>



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**City of Clearwater**  
**Schedule of Receipts, Disbursements, and Changes**  
**in Cash Fund Balances - Budget and Actual -**  
**General Fund**  
**Year Ended December 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Disbursements</b>				
Public works				
Streets and highways				
Current	\$ 291,568	\$ 291,568	\$ 253,982	\$ (37,586)
Capital outlay	-	18,437	18,151	(286)
Total public works	<u>291,568</u>	<u>310,005</u>	<u>272,133</u>	<u>(37,872)</u>
Culture and recreation				
Parks				
Current	2,100	2,100	1,693	(407)
Libraries				
Current	<u>25,500</u>	<u>25,500</u>	<u>28,287</u>	<u>2,787</u>
Total culture and recreation	<u>27,600</u>	<u>27,600</u>	<u>29,980</u>	<u>2,380</u>
Miscellaneous				
Other				
Current	<u>29,490</u>	<u>29,490</u>	<u>43,906</u>	<u>14,416</u>
Total disbursements	<u>986,378</u>	<u>1,004,815</u>	<u>1,166,633</u>	<u>161,818</u>
Excess of receipts over (under) disbursements	-	96,188	10,914	(85,274)
<b>Other Financing Uses</b>				
Transfers out	<u>-</u>	<u>(96,188)</u>	<u>(99,338)</u>	<u>(3,150)</u>
Net change in cash fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(88,424)</u>	<u>\$ (88,424)</u>
<b>Cash Fund Balances</b>				
Beginning of year			<u>1,288,029</u>	
End of year			<u>\$ 1,199,605</u>	

**City of Clearwater**  
**Schedule of Receipts, Disbursements, and Changes**  
**in Cash Fund Balances - Budget and Actual -**  
**Fire Department Special Revenue Fund**  
**Year Ended December 31, 2021**

	Budgeted	Actual	Variance with
	Original and	Amounts	Final Budget -
	Final		Over (Under)
<b>Receipts</b>			
Taxes			
Property taxes	\$ 151,450	\$ 152,146	\$ 696
Intergovernmental			
State grants and aids			
Fire aid	28,500	74,927	46,427
Charges for services			
Public safety	197,030	200,139	3,109
Miscellaneous			
Refunds and reimbursements	-	8,537	8,537
Donations	-	350	350
Total miscellaneous	-	8,887	8,887
Total receipts	376,980	436,099	59,119
<b>Disbursements</b>			
Public safety			
Fire			
Current	227,950	205,604	(22,346)
Excess of receipts over disbursements	149,030	230,495	81,465
<b>Other Financing Uses</b>			
Transfers out	(149,030)	(149,030)	-
Net change in cash fund balances	\$ -	81,465	\$ 81,465
<b>Cash Fund Balances</b>			
Beginning of year		89,380	
End of year		\$ 170,845	

**City of Clearwater**  
**Schedule of Receipts, Disbursements, and Changes**  
**in Cash Fund Balances - Budget and Actual -**  
**Local Option Sales Tax Special Revenue Fund**  
**Year Ended December 31, 2021**

	Budgeted Amounts	Actual	Variance with
	Original and Final	Amounts	Final Budget - Over (Under)
<b>Receipts</b>			
Taxes			
Miscellaneous taxes	\$ 240,000	\$ 308,459	\$ 68,459
Miscellaneous			
Interest income	10,000	-	(10,000)
Total receipts	250,000	308,459	58,459
<b>Disbursements</b>			
General government			
Current	10,000	12,962	2,962
Culture and recreation			
Parks			
Capital outlay	234,000	72,995	(161,005)
Total disbursements	244,000	85,957	(158,043)
Net change in cash fund balances	\$ 6,000	222,502	\$ 216,502
<b>Cash Fund Balances</b>			
Beginning of year		1,403,687	
End of year		\$ 1,626,189	

**City of Clearwater**  
**Combining Statement of Balances Arising From**  
**Cash Transactions - Nonmajor Governmental Funds**  
**December 31, 2021**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	Park Dedication Fee (200)	Parks and Recreation (240)	G.O. Improvement Bonds of 2015 (315)	G.O. Improvement Bonds of 2019 (316)
<b>Assets</b>				
Cash and investments	\$ 2,913	\$ 35,754	\$ 162,964	\$ 60,078
<b>Cash Fund Balances</b>				
Restricted	<u>\$ 2,913</u>	<u>\$ 35,754</u>	<u>\$ 162,964</u>	<u>\$ 60,078</u>

G.O. Equipmnt Certificate 2020A (317)	Capital Projects				Total Governmental Funds
	Street Capital (415)	2019 Street Improvement Project (416)	Fire Truck Capital Fund (421)		
\$ 4,418	\$ 159,693	\$ 46,532	\$ 119,030	\$ 591,382	
\$ 4,418	\$ 159,693	\$ 46,532	\$ 119,030	\$ 591,382	

**City of Clearwater**  
**Combining Statement of Receipts, Disbursements, and**  
**Changes in Cash Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended December 31, 2021**

	Special Revenue		Debt Service	
	Park Dedication Fee (200)	Parks and Recreation (240)	G.O. Improvement Bonds of 2015 (315)	G.O. Improvement Bonds of 2019 (316)
<b>Receipts</b>				
General property taxes	\$ -	\$ 80,072	\$ 99,823	\$ 54,456
Miscellaneous taxes	-	15	-	-
Special assessments	-	-	28,395	51,706
Miscellaneous				
Refunds and reimbursements	-	3,606	-	-
Other	-	11,163	-	-
Total receipts	<u>-</u>	<u>94,856</u>	<u>128,218</u>	<u>106,162</u>
<b>Disbursements</b>				
Current				
Culture and recreation	-	96,623	-	-
Debt service				
Principal	-	-	85,000	40,000
Interest and other charges	-	-	43,225	40,548
Capital outlay				
Public works	-	-	-	-
Total disbursements	<u>-</u>	<u>96,623</u>	<u>128,225</u>	<u>80,548</u>
Excess of receipts over (under) disbursements	-	(1,767)	(7)	25,614
<b>Other Financing Sources</b>				
Proceeds from sale of capital asset	-	-	-	-
Transfers in	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash fund balances	-	(1,767)	(7)	25,614
<b>Cash Fund Balances</b>				
Beginning of year	<u>2,913</u>	<u>37,521</u>	<u>162,971</u>	<u>34,464</u>
End of year	<u>\$ 2,913</u>	<u>\$ 35,754</u>	<u>\$ 162,964</u>	<u>\$ 60,078</u>

G.O. Equipmmt Certificate 2020A (317)	Capital Projects				Total Governmental Funds
	Street Capital (415)	2019 Street Improvement Project (416)	Fire Truck Capital Fund (421)		
\$ 98,734	\$ 25,577	\$ -	\$ -	\$ 358,662	
-	-	-	-	15	
-	-	-	-	80,101	
-	-	-	-	3,606	
-	-	-	-	11,163	
<u>98,734</u>	<u>25,577</u>	<u>-</u>	<u>-</u>	<u>453,547</u>	
-	-	-	-	96,623	
82,000	-	-	-	207,000	
12,316	-	-	-	96,089	
-	-	51,635	-	51,635	
<u>94,316</u>	<u>-</u>	<u>51,635</u>	<u>-</u>	<u>451,347</u>	
4,418	25,577	(51,635)	-	2,200	
-	-	-	20,000	20,000	
-	-	-	99,030	99,030	
-	-	-	119,030	119,030	
4,418	25,577	(51,635)	119,030	121,230	
-	134,116	98,167	-	470,152	
<u>\$ 4,418</u>	<u>\$ 159,693</u>	<u>\$ 46,532</u>	<u>\$ 119,030</u>	<u>\$ 591,382</u>	



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**ADDITIONAL SUPPLEMENTARY INFORMATION**

**City of Clearwater**  
**Schedule of Accounts Receivable**  
**Year Ended December 31, 2021**

Fund	Source	Purpose	Amount
General Fund	Wright County	Clean-up settlement	\$ 6,559
General Fund	Midco	December Franchise Fee	997
General Fund	Minnesota Dept. of Finance	December Fines and Fees	513
Parks and Recreation	Clearwater/Clear Lake Food Shelf	Lease agreement fees	1,000
Local Option Sales Tax	Minnesota Revenue	November and December Sales Tax	27,536
Water Fund	Utility Customers	Water utility receivable	17,105
Water Fund	Wright County	Grant receivable	35,479
Sewer Fund	Utility Customers	Sewer utility receivable	97,806
Sewer Fund	Clear Lake/Clearwater Sewer Authority	Admin and Treasurer Services	1,958
Refuse and Recycling Fund	Utility Customers	Refuse utility receivable	13,106
Refuse and Recycling Fund	Wright County	4th Qtr Payments - Recycle	675
Refuse and Recycling Fund	Wright County	Clean-up Day County Payments	473
Storm Sewer Fund	Utility Customers	Storm sewer receivable	4,123
			<hr/>
Total			<u>\$ 207,330</u>

**City of Clearwater  
Schedule of Accounts Payable  
Year Ended December 31, 2021**

Fund	Vendor Name	Item and Purpose	Amount
General	Quill Corporation	Operating supplies	217
General	Coordinated Business System	Copies	139
General	PSN	Fees	40
General	Wright County Auditor Treasurer	Truth in taxation notices	147
General	MN Department of Labor and Industry	Quarter 4 Surcharge	302
General	Cintas	Operating supplies	225
General	Becky Marklowitz	Professional services	505
General	Northland Trust Services	Professional services	435
General	Now It Connects, Inc	Maintenance	470
General	William Schindele	Professional services	350
General	Patriot News	Professional services	1,663
General	Xcel Energy	Utilities	3,313
General	Fidelity Security Life	Insurance premiums	61
General	Kennedy & Graven	Professional services	1,570
General	Bolton & Menk, Inc.	Professional services	1,328
General	Landform Professional Services	Professional services	53
General	Wright County Auditor Treasurer	Patrol fines	2,731
General	Metro West Inspection Services	Permits	4,032
General	Tri-County Humane Society	Professional services	75
General	Big State Industrial Supply	Operating supplies	968
General	Central McGowan Inc.	Operating supplies	9
General	Clearwater Parts City Auto	Operating supplies	211
General	Lawson Products, Inc.	Operating supplies	291
General	Menards	Operating supplies	79
General	Premium Waters, Inc	Operating supplies	43
General	Continental Research Corp	Professional services	153
General	Beaudry Oil Company, Inc	Operating supplies	1,760
General	CTP, Inc.	Fuel	218
General	Blaine Brothers	Professional services	1,770
General	Momentum Truck Group	Professional services	145
General	Yagers Fire Protection	Operating supplies	439
General	Ziegler, Inc	Supplies and professional services	2,495
General	Central Hydraulics	Professional services	25
General	John Deere Financial	Operating supplies	28
General	Premium Quality Lighting	Operating supplies	56
General	Verizon	Phone bill	77
General	Wright Hennepin Coop Electric	Utilities	373
General	Beuning, LLC	Professional services	1,028
General	Aflac	Insurance premiums	34
Fire Department	Clearwater Laser Etching LLC	Operating supplies	240
Fire Department	Clearwater Parts City Auto	Operating supplies	15
Fire Department	Coborns	Fuel	691
Fire Department	Menards	Operating supplies	16
Fire Department	Becky Marklowitz	Professional services	53
Fire Department	Municipal Emergency Services	Equipment	3,915
Fire Department	Med Compass	Professional services	1,620
Fire Department	Customized Fire & Rescue Inc	Training class	500
Fire Department	Allina Hospitals & Clinics	Training class	960
Fire Department	Xcel Energy	Utilities	356
Parks and Recreation	Handymans, Inc	Operating supplies	155
Parks and Recreation	Menards	Operating supplies	52
Parks and Recreation	Quill Corporation	Operating supplies	14
Parks and Recreation	CTP, Inc.	Fuel	114
Parks and Recreation	Becky Marklowitz	Professional services	503
Parks and Recreation	Clearwater Parts City Auto	Operating supplies	7
Parks and Recreation	Tri-County Lumber, Inc	Operating supplies	640
Parks and Recreation	Clearwater Rental Center	Operating supplies	200
Parks and Recreation	Wright Hennepin Coop Electric	Professional services	27
Parks and Recreation	Xcel Energy	Utilities	537
Parks and Recreation	Nelson Sanitation	Professional services	115
Parks and Recreation	Various Customers	Lions Rental Refund	600
Economic Development Authority	Whitebox Marketing	Professional services	1,480
Water	Granite Water Works Inc	Operating supplies	48
Water	Coordinated Business System	Copies	18
Water	Gopher State One-Call	W/S locates	7
Water	PSN	Fees	79
Water	CTP, Inc.	Fuel	92
Water	Bolton & Menk, Inc.	Professional services	3,720
Water	Traut Wells, Inc	Professional services	55
Water	Minnesota Revenue	Sales tax	368
Water	Xcel Energy	Utilities	1,265
Water	Molitor Excavating	Retainage Payable	31,366
Sewer	Gopher State One-Call	W/S locates	7
Sewer	PSN	Fees	449
Sewer	Coordinated Business System	Copies	18
Sewer	CTP, Inc.	Fuel	93
Sewer	Clear lake/ Clearwater Sewer Authority	Sewer flow	26,209
Sewer	Wright Hennepin Coop Electric	Utilities	78
Sewer	Xcel Energy	Utilities	428
Refuse	Minnesota Revenue	Sales tax	711
Refuse	Coordinated Business System	Copies	9
Total			<u>\$ 105,688</u>

**City of Clearwater  
Water and Sewer Enterprise Funds  
Wright County, Minnesota**

**Basic Financial Statements**

**December 31, 2021**



**City of Clearwater  
Water and Sewer Enterprise Funds  
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**City of Clearwater  
Water and Sewer Enterprise Funds  
Elected Officials and Administration  
December 31, 2021**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2022
Kris Crandall	Council Member	December 31, 2022
Wayne Kruchten	Council Member	December 31, 2022
Richard Petty	Council Member	December 31, 2024
Lindsey Luhmann	Council Member	December 31, 2024
<u>Administration</u>		
Annita Smythe	City Administrator	Appointed
Deb Petty	Deputy Clerk	Appointed
Sarah Johnson	Accountant	Appointed

## Independent Auditor's Report

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

### **Report on the Audit of the Financial Statements**

#### **Opinions**

We have audited the financial statements of the Water and Sewer Utility Enterprise Funds of the City of Clearwater, as of and for the year ended December 31, 2021, and the related notes to financial statements, as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Water and Sewer Utility Enterprise Funds of the City of Clearwater, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

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

#### **Emphasis of Matter**

As discussed in Note 1, the financial statements referred to in the first paragraph present only the Water and Sewer Utility Enterprise Funds and do not purport to, and do not present fairly, the financial position of the City as of December 31, 2021, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

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



## **Responsibilities of Management for the Financial Statements (Continued)**

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

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

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

### **Required Supplementary Information**

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

Accounting principles generally accepted in the United States of America require that the Required Supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2022, on our consideration of the City of Clearwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Clearwater's internal control over financial reporting and compliance. These reports are included in the City of Clearwater's regulatory basis audit report dated March 17, 2022.

**BerganKDV, Ltd.**

Minneapolis, Minnesota  
March 17, 2022

## **BASIC FINANCIAL STATEMENTS**

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Statement of Net Position**  
**December 31, 2021**

	Water (600)	Sewer (601)	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 895,515	\$ 809,043	\$ 1,704,558
Special assessment receivable			
Delinquent	1,060	3,460	4,520
Deferred	1,698	5,540	7,238
Accounts receivable	17,105	97,806	114,911
Due from other governments	35,479	1,958	37,437
Prepaid expenses	2,920	2,700	5,620
Total current assets	<u>953,777</u>	<u>920,507</u>	<u>1,874,284</u>
<b>Noncurrent assets</b>			
Equity interest in joint venture	-	7,192,104	7,192,104
Capital assets not being depreciated			
Construction in progress	825,183	-	825,183
Capital assets being depreciated			
Sewer and water systems	3,495,142	3,905,765	7,400,907
Equipment	167,896	37,949	205,845
Total capital assets	<u>4,488,221</u>	<u>3,943,714</u>	<u>8,431,935</u>
Less accumulated depreciation	<u>(1,462,911)</u>	<u>(1,740,705)</u>	<u>(3,203,616)</u>
Net capital assets	<u>3,025,310</u>	<u>2,203,009</u>	<u>5,228,319</u>
Total noncurrent assets	<u>3,025,310</u>	<u>9,395,113</u>	<u>12,420,423</u>
Total assets	<u>3,979,087</u>	<u>10,315,620</u>	<u>14,294,707</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows of resources related to pension activity	<u>30,403</u>	<u>37,019</u>	<u>67,422</u>
Total assets and deferred outflows of resources	<u>\$ 4,009,490</u>	<u>\$ 10,352,639</u>	<u>\$ 14,362,129</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 3,154	\$ 1,073	\$ 4,227
Contracts payable	33,496	-	33,496
Salaries and benefits payable	2,934	3,630	6,564
Due to other governments	368	26,209	26,577
Interest payable	3,133	17,838	20,971
Amount due within one year	64,622	453,783	518,405
Total current liabilities	<u>107,707</u>	<u>502,533</u>	<u>610,240</u>
<b>Noncurrent liabilities</b>			
Compensated absences	4,998	6,145	11,143
Note from direct borrowing	694,634	2,803,000	3,497,634
Bonds payable	570,000	-	570,000
Premium on bonds payable	18,238	-	18,238
Net pension liability	37,973	46,237	84,210
Less amount due within one year	<u>(64,622)</u>	<u>(453,783)</u>	<u>(518,405)</u>
Total noncurrent liabilities	<u>1,261,221</u>	<u>2,401,599</u>	<u>3,662,820</u>
Total liabilities	<u>1,368,928</u>	<u>2,904,132</u>	<u>4,273,060</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to pension activity	<u>34,800</u>	<u>42,374</u>	<u>77,174</u>
<b>Net Position</b>			
Net investment in capital assets	1,742,438	6,592,113	8,334,551
Unrestricted	863,324	814,020	1,677,344
Total net position	<u>2,605,762</u>	<u>7,406,133</u>	<u>10,011,895</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 4,009,490</u>	<u>\$ 10,352,639</u>	<u>\$ 14,362,129</u>

See notes to basic financial statements.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**Year Ended December 31, 2021**

	Water (600)	Sewer (601)	Total
Operating revenues			
Charges for services	\$ 237,929	\$ 1,007,330	\$ 1,245,259
Permits, hook-up fees, and penalties	-	4,857	4,857
Miscellaneous operating revenues	861	7,774	8,635
Total operating revenues	<u>238,790</u>	<u>1,019,961</u>	<u>1,258,751</u>
Operating expenses			
Wages and salaries	90,909	118,959	209,868
Contracted services	817	-	817
Materials and supplies	16,168	4,479	20,647
Repairs and maintenance	1,036	30,675	31,711
Professional services	20,543	-	20,543
Sewer authority charges	-	354,586	354,586
Utilities	17,640	6,098	23,738
Depreciation	73,331	80,052	153,383
Miscellaneous	15,312	10,781	26,093
Total operating expenses	<u>235,756</u>	<u>605,630</u>	<u>841,386</u>
Operating income (loss)	3,034	414,331	417,365
Nonoperating revenues (expenses)			
Property taxes	53,513	-	53,513
Intergovernmental	45,573	115	45,688
Trunk and access charges	23,750	35,750	59,500
Interest expense	(18,640)	(52,504)	(71,144)
Other income	12,505	-	12,505
Total nonoperating revenues (expenses)	<u>116,701</u>	<u>(16,639)</u>	<u>100,062</u>
Income (loss) before change in equity interest, contributions and transfers	119,735	397,692	517,427
Change in equity interest	-	(252,516)	(252,516)
Contributions from EDA	6,250	6,250	12,500
Transfers in	99,338	-	99,338
Change in net position	<u>225,323</u>	<u>151,426</u>	<u>376,749</u>
Net position			
Beginning of year	<u>2,380,439</u>	<u>7,254,707</u>	<u>9,635,146</u>
End of year	<u>\$ 2,605,762</u>	<u>\$ 7,406,133</u>	<u>\$ 10,011,895</u>

See notes to basic financial statements.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Statement of Cash Flows**  
**Year Ended December 31, 2021**

	Water (600)	Sewer (601)	Total
<b>Cash Flows - Operating Activities</b>			
Receipts from customers and users	\$ 236,570	\$ 1,014,162	\$ 1,250,732
Payments to suppliers	(74,860)	(408,295)	(483,155)
Payments to employees	(101,459)	(119,028)	(220,487)
Net cash flows - operating activities	<u>60,251</u>	<u>486,839</u>	<u>547,090</u>
<b>Cash Flows - Noncapital Financing Activities</b>			
Intergovernmental	10,000	-	10,000
Property taxes	53,513	-	53,513
Miscellaneous revenue	36,255	35,750	72,005
Contributions from EDA	6,250	6,250	12,500
Transfer from other funds	99,338	-	99,338
Net cash flows - noncapital financing activities	<u>205,356</u>	<u>42,000</u>	<u>247,356</u>
<b>Cash Flows - Capital and Related Financing Activities</b>			
Principal paid on debt	(35,000)	(440,000)	(475,000)
Interest paid on debt	(18,513)	(55,034)	(73,547)
Bond proceeds	694,634	-	694,634
Acquisition of capital assets	(694,546)	(9,269)	(703,815)
Net cash flows - capital and related financing activities	<u>(53,425)</u>	<u>(504,303)</u>	<u>(557,728)</u>
Net change in cash and cash equivalents	212,182	24,536	236,718
<b>Cash and Cash Equivalents</b>			
Beginning of year	<u>683,333</u>	<u>784,507</u>	<u>1,467,840</u>
End of year	<u>\$ 895,515</u>	<u>\$ 809,043</u>	<u>\$ 1,704,558</u>
<b>Reconciliation of Operating Income to Net Cash Flows - Operating Activities (Loss)</b>			
Operating income (loss)	\$ 3,034	\$ 414,331	\$ 417,365
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Depreciation expense	73,331	80,052	153,383
Accounts receivable	(3,090)	(6,681)	(9,771)
Due from other governments	-	(1,958)	(1,958)
Special assessment receivable	870	2,840	3,710
Prepaid items	695	(10)	685
Accounts payable	(3,305)	270	(3,035)
Due to other governmental units	(25)	(1,831)	(1,856)
Salaries payable	(9,175)	763	(8,412)
Compensated absences payable	(2,084)	(937)	(3,021)
Total adjustments	<u>57,217</u>	<u>72,508</u>	<u>129,725</u>
Net cash flows - operating activities	<u>\$ 60,251</u>	<u>\$ 486,839</u>	<u>\$ 547,090</u>

See notes to basic financial statements.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

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

**A. Reporting Entity**

The City of Clearwater is a statutory city governed by an elected mayor and four council members. A mayor and four council members are elected by the voters of the City for two year and four year terms, respectively.

The accounting policies of the Utility Enterprise Funds conform to accounting principles generally accepted in the United States of America.

**1. Joint Ventures and Jointly Governed Organization**

In 1975, the City entered into an agreement with the City of Clear Lake to establish a wastewater disposal facility for the Cities of Clearwater and Clear Lake (the "Cities"). All user charges and assessments required to be made as a result of the operation and use of the wastewater disposal system by the Clear Lake/Clearwater Sewer Authority (the "Authority") shall be levied and collected by the Cities. The wastewater disposal facility, land, and easements previously held by the Authority were transferred to the Cities to be held by them as tenants in common for use and operation by the Authority. Certain proceeds of the 1977 Improvement Bonds, all proceeds of the Public Facilities Authority (PFA) notes and all proceeds from the 2007A Temporary Sewer Bonds were transferred to the Authority to pay for the City's portion of construction costs. Because there is an explicit measurable equity interest in the joint venture, the interest is in the Sewer Enterprise Fund. The asset balance at December 31, 2021, was \$7,192,104.

Separate audited financial statements are issued for the Authority and annual financial statements are submitted to the State of Minnesota. These financial statements may be obtained from the City Administrator at the following address:

Clearwater City Hall  
605 County Road 75 NW  
Clearwater, MN 55320

**B. Basis of Reporting**

These financial statements are those of the Water and Sewer Enterprise Funds only. The Water and Sewer Enterprise Funds are an enterprise of the City.

**C. Basis of Accounting**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets, including capital assets and all liabilities, including long-term liabilities associated with their activity, are included on their balance sheets. Their reported fund equity is segregated into restricted, unrestricted, and invested on capital assets net of related debt. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Notes Basic Financial Statements**

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

**C. 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 revenues of the proprietary 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. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Cash and Investments**

Cash and investment balances of the Utility Enterprise Funds are combined (pooled) with the funds of the City.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The cash and investments of the EDA Component Unit are pooled with the City's cash and investments.

*Minnesota Statutes* authorizes the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool. Investments are stated at fair value.

Certain investments for the City are reported at fair value as disclosed in Note 3. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**E. Capital Assets**

Capital assets are recorded at historical cost. The City capitalized items with a useful life of over three years and a cost of over \$5,000. Depreciation is provided over estimated useful lives, which range from 5 to 40 years, using the straight-line method. Depreciation expense totaled \$151,056 for the year ended December 31, 2021.

**F. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City presents deferred outflows of resources on the Statement of Net Position for deferred outflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.



**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

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

**F. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City presents deferred inflows of resources on the Statement of Net Position for deferred inflows of resources related to pensions for various estimate differences that will be amortized and recognized over future years.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash balances of the City's funds are combined (pooled) and invested to the extent available in various investments authorized by *Minnesota Statutes*. Each fund's portion of this pool (or pools) is displayed on the financial statements as cash and cash equivalents or investments. For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below and on the following page.

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the City maintains deposits at depository banks authorized by the City Council.

**Custodial Credit Risk – Deposits:** This is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of December 31, 2021, the City's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the City's name.

The City's deposits had a book balance as follows:

Checking	\$ 2,158,734
Savings	2,172,325
Certificates of deposits	<u>503,747</u>
Total deposits	<u><u>\$ 4,834,806</u></u>

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Notes Basic Financial Statements**

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

**B. Investments**

As of December 31, 2021, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI Y	\$ 10,285	N/A	N/A
FHLMC MTN	100,065	01/13/22	Aaa
US Treasury Note	101,727	02/15/23	Aaa
US Treasury Note	51,535	01/31/24	Aaa
US Treasury Note	148,043	02/15/24	Aaa
US Treasury Note	52,076	02/15/24	Aaa
US Treasury Note	150,528	02/28/25	Aaa
US Treasury Note	49,170	03/31/25	Aaa
US Treasury Note	53,013	05/31/25	Aaa
US Treasury Note	51,399	06/30/26	Aaa
US Treasury Note	50,566	08/15/26	Aaa
US Treasury Note	50,846	10/31/26	Aaa
US Treasury Note	51,720	11/15/26	Aaa
Ishares Treasury Bond	207,000	10/31/26	N/A
4M Fund (General)	221	N/A	N/A
4M Fund (2019 SEA Project [Municipal Advisory Account])	193,614	N/A	N/A
 Total	 <u>\$ 1,321,808</u>		

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments to those specified in the above statutes.

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market value interest rates. The City's investment policy indicates they will structure their investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of government's investment in a single issuer. The City's investment policy indicates the investment portfolio should be diversified so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. The policy further indicates the City will take every measure to keep the concentration of credit risk below 25% of the total investments. As of December 31, 2021, the City was exposed to concentration of credit risk because individual investments, as noted in the table on following page, exceeded 5% of the City's total investment portfolio.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

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

**B. Investments (Continued)**

Investments	Concentration of Credit Risk
FHLMC	7.6 %

Custodial Credit Risk – Investments: For an investment, this is the risk in the event of the failure of the counterparty the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy states all investments must be fully insured and registered in the name of the City. Some City Securities held by the City's broker-dealer are not registered to the City, but are held in an insured account. The account is insured up to \$500,000 SIPC insurance and the broker-dealer provides an additional aggregate insurance policy for all of its customers as a group, not individually. It is unknown what portion of this policy is applicable to the City's portfolio.

The City has the following recurring fair value measurements as of December 31, 2021:

- \$1,027,908 of investments are valued using quoted market prices (Level 1 inputs)
- \$100,065 of investments are valued using a matrix pricing model (Level 2 inputs)

**C. Balances**

As of December 31, 2021, the City had deposits and investments as follows:

Deposits (Note 2.A.)	\$ 4,834,806
Petty cash	150
Investments (Note 2.B.)	<u>1,321,808</u>
Total deposits and investments	<u><u>\$ 6,156,764</u></u>

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Notes Basic Financial Statements**

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

**C. Balances (Continued)**

Deposits and investments are presented in the December 31, 2021, basic financial statements as follows:

Statement of balances arising from cash	
Transactions - governmental funds	
Cash and investments	\$ 4,171,799
Cash and investments - component unit	196,208
Statement of balances arising from cash	
Transactions - proprietary funds	
Cash and cash equivalents - Water Fund	895,515
Cash and cash equivalents - Sewer Fund	809,043
Cash and cash equivalents - Refuse and Recycling Fund	28,689
Cash and cash equivalents - Storm Sewer	<u>55,510</u>
 Total deposits and investments	 <u><u>\$ 6,156,764</u></u>

**NOTE 3 – CAPITAL ASSETS**

The following is a summary of the Water and Sewer Enterprise Funds' capital assets as of December 31, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not being Depreciated				
Construction in Progress	\$ 120,446	\$ 704,737	\$ -	\$ 825,183
Capital assets being depreciated				
Water and sewer system	7,391,638	9,269	-	7,400,907
Equipment	182,570	23,275	-	205,845
Total capital assets being depreciated	<u>7,574,208</u>	<u>32,544</u>	<u>-</u>	<u>7,606,752</u>
Less accumulated depreciation for				
Water and sewer system	2,877,983	147,874	-	3,025,857
Equipment	172,250	5,509	-	177,759
Total accumulated depreciation	<u>3,050,233</u>	<u>153,383</u>	<u>-</u>	<u>3,203,616</u>
 Total capital assets being depreciated, net	 <u>4,523,975</u>	 <u>(120,839)</u>	 <u>-</u>	 <u>4,403,136</u>
Utility enterprise funds capital position, net	<u>\$ 4,644,421</u>	<u>\$ 583,898</u>	<u>\$ -</u>	<u>\$ 5,228,319</u>

Depreciation expense of \$73,331 and \$80,052 was charged to the Water and Sewer fund respectively for the year ended December 31, 2021.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Notes Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT**

**A. General Obligation Bonds**

The City issues G.O. bonds to provide for financing street improvements. Debt service is covered respectively by special assessments against benefited properties with any shortfalls being paid from general taxes.

G.O. bonds are direct obligations and pledge the full faith and credit of the City. These bonds generally are issued as 15 year serial bonds with equal debt service payments each year.

**B. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
Proprietary Funds						
Note from direct borrowing						
G.O. Revenue Notes						
2008 G.O. PFA sewer revenue note	10/28/08	1.70%	\$ 7,700,085	08/20/27	\$ 2,803,000	\$ 448,000
2021 G.O. PFA water revenue note	06/24/21	1.00%	1,114,021*	08/20/27	694,634	25,021
Bonds payable						
G.O. Bonds						
2015 G.O Improvement Bond	05/15/15	3.00%-3.25%	780,000	12/01/35	570,000	35,000
Total					<u>4,067,634</u>	<u>508,021</u>
Compensated absences					11,143	10,384
Total proprietary funds					<u>\$ 4,078,777</u>	<u>\$ 518,405</u>

\*The G.O. PFA Water Revenue Note project is not yet completed, resulting in only \$694,634 of the total award of the \$1,114,021 being drawn.

Long-term bonded indebtedness listed above was issued to finance acquisition and construction of capital facilities.

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Proprietary funds				
Note from direct borrowing				
G.O. PFA sewer revenue note	\$ 3,243,000	\$ -	\$ 440,000	\$ 2,803,000
G.O. PFA water revenue note	-	694,634	-	694,634
Bonds payable				
G.O. improvement Bonds	605,000	-	35,000	570,000
Compensated absences	14,164	11,983	15,004	11,143
Total proprietary funds	<u>\$ 3,862,164</u>	<u>\$ 706,617</u>	<u>\$ 490,004</u>	<u>\$ 4,078,777</u>

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Annual Debt Service Obligations**

Years Ending December 31,	Proprietary Funds					
	Note from Direct Borrowing			G.O. Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2022	\$ 473,021	\$ 54,303	\$ 527,324	\$ 35,000	\$ 17,463	\$ 52,463
2023	507,000	50,854	557,854	35,000	16,413	51,413
2024	516,000	42,613	558,613	35,000	15,363	50,363
2025	524,000	34,226	558,226	35,000	14,313	49,313
2026	533,000	25,703	558,703	35,000	13,263	48,263
2027-2031	765,000	46,624	811,624	205,000	49,063	254,063
2032-2036	292,000	24,180	316,180	190,000	15,650	205,650
2037-2041	307,000	9,280	316,280	-	-	-
Total	<u>\$ 3,917,021</u>	<u>\$ 287,783</u>	<u>\$ 4,204,804</u>	<u>\$ 570,000</u>	<u>\$ 141,528</u>	<u>\$ 711,528</u>

**NOTE 5 – RISK MANAGEMENT**

The City purchases commercial insurance coverage through the League of Minnesota Cities Insurance Trust (LMCIT) with other cities in the state which is a public entity risk pool currently operating as a common risk management and insurance program. The City pays an annual premium to the LMCIT for its insurance coverage. The LMCIT is self-sustaining through commercial companies for excess claims. The City is covered through the pool for any claims incurred but unreported, however, retains risk for the deductible portion of its insurance policies. The amount of these deductibles is considered immaterial to the financial statements.

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

The City's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2021 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2021, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**NOTE 6 – PENSION PLANS**

**Public Employees' Retirement Association**

The Water and Sewer Enterprise Funds typically liquidate the liability related to pensions.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description**

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Data presented within this footnote relates to the Water and Sewer Enterprise Funds only.

General Employees Retirement Plan

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for a Coordinated members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2021 and the City was required to contribute 7.5% for Coordinated Plan members. The Water and Sewer Enterprise Funds' contributions to the General Employees Fund for the year ended December 31, 2021, were \$10,794. The City's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$84,210 for its proportionate share of the General Employees Fund's net pension liability allocated to the Water and Sewer Funds. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2021. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Water and Sewer Enterprise Funds' totaled \$2,586.

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportionate share of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The Water and Sewer Enterprise Funds' proportionate share was 0.00197%, at the end of the measurement period and 0.00204% for the beginning of the period.

Funds' proportionate share of the net pension liability	\$ 84,210
State of Minnesota's proportionate share of the net pension liability associated with the Funds'	2,586
Total	\$ 86,796



**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

For the year ended December 31, 2021, the Water and Sewer Enterprise Funds' recognized pension expense of \$(94) for its proportionate share of General Employees Plan's pension expense. Included in the amount, the Water and Sewer Enterprise Funds' recognized \$209 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2021, the Water and Sewer Enterprise Funds' reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 442	\$ 2,567
Changes in actuarial assumptions	51,417	1,730
Net collective difference between projected and actual investment earnings	-	72,877
Changes in proportion	10,166	-
Contributions paid to PERA subsequent to the measurement date	5,397	-
Total	\$ 67,422	\$ 77,174

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

The \$5,397 reported as deferred outflows of resources related to pensions resulting from Water and Sewer Enterprise Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Pension Expense Amount
2022	\$ 1,745
2023	2,683
2024	315
2025	(19,892)
Total	\$ (15,149)

**E. Long-Term Expected Return on Investment**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100 %	

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Actuarial Methods and Assumptions**

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation. The most recent four-year experience study for the Police and Fire Plan was completed in 2020 and was adopted by the Board and became effective with the July 1, 2021, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2021:

**General Employees Fund**

**Changes in Actuarial Assumptions**

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

**Changes in Plan Provisions**

- There have been no changes since the previous valuation.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Notes Basic Financial Statements**

**NOTE 6 – PENSION PLANS (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. Discount Rate**

The discount rate used to measure the total pension liability in 2021 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**H. Pension Liability Sensitivity**

The following table presents the Water and Sewer Enterprise Funds' proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Water and Sewer Enterprise Funds' proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
City's proportionate share of the General Employees Fund net pension liability	\$ 171,746	\$ 84,210	\$ 12,382

**I. Pension Plan Fiduciary Net Position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 7 – COMMITMENTS**

The City is in the process of constructing improvements on the I94 Watermain project and have remaining commitment of \$238,415.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Schedule of Water and Sewer Enterprise Funds**  
**Proportionate Share of Net Pension Liability**  
**General Employees Retirement Funds**  
**Last Ten Years**

For Fiscal Year Ended June 30,	Fund's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Fund's Proportionate Share (Amount) of The Net Pension Liability (Asset)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the Funds	Fund's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pensions Liability Associated with the Funds	Fund's Covered Payroll	Fund's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.00075%	\$ 38,803	\$ -	\$ 38,803	\$ 43,627	88.94%	78.19%
2016	0.00138%	112,317	1,478	113,795	86,400	130.00%	68.91%
2017	0.00080%	51,247	638	51,885	51,182	100.13%	75.90%
2018	0.00116%	64,563	2,096	66,659	78,128	82.64%	79.53%
2019	0.00150%	82,893	2,552	85,445	106,138	78.10%	80.23%
2020	0.00204%	122,353	3,798	126,151	145,504	84.09%	79.06%
2021	0.00197%	84,210	2,586	86,796	142,011	59.30%	87.00%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Schedule of Water and Sewer Enterprise Funds Contributions**  
**General Employees Retirement Funds**  
**Last Ten Years**

Fiscal Year Ending December 31,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Fund's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 3,522	\$ 3,522	-	\$ 46,960	7.50%
2016	6,523	6,523	-	86,973	7.50%
2017	3,990	3,990	-	53,200	7.50%
2018	6,027	6,027	-	80,360	7.50%
2019	8,608	8,608	-	114,773	7.50%
2020	11,295	11,295	-	150,600	7.50%
2021	10,794	10,794	-	143,920	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Required Supplementary Information**

## **General Employees Fund**

### **2021 Changes**

#### Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes.
- The mortality improvement scale was changed from scale MP-2019 to scale MP-2020.

#### Changes in Plan Provisions

- There have been no changes since the prior valuation.

### **2020 Changes**

#### Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

#### Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

### **2019 Changes**

#### Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.



**City of Clearwater**  
**Water and Sewer Enterprise Funds**  
**Notes to Required Supplementary Information**

**General Employees Fund (Continued)**

**2019 Changes (Continued)**

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**City of Clearwater  
Water and Sewer Enterprise Funds  
Notes to Required Supplementary Information**

**General Employees Fund (Continued)**

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation was decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**2015 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**City of Clearwater**

**Reports on Compliance with  
*Government Auditing Standards,*  
Uniform Guidance and  
Minnesota Legal Compliance**

**December 31, 2021**



**City of Clearwater  
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**City of Clearwater  
Wright County, Minnesota  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2021**

<u>Federal Assistance Number and Funding Source</u>	<u>Administering Department</u>	<u>Grant Name/Program</u>	<u>2021 Expenditures</u>
CFDA No. 66.468 U.S. Environmental Protection Agency	Minnesota Public Facilities Authority	Capitalization Grant for Drinking Water	\$ 694,634
CFDA No. 21.027 Department of the Treasury Department of the Treasury Total American Rescue Plan	State of Minnesota Wright County	COVID American Rescue Plan COVID American Rescue Plan	99,338 <u>35,479</u> 134,817
Total			<u>\$ 829,451</u>

**City of Clearwater**  
**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Clearwater, Minnesota and is presented on the regulatory basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the regulatory basis financial statements.

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 3 – INDIRECT COST RATE**

The City did not elect to use the 10 percent de minimis indirect cost rate, as allowed under the Uniform Guidance.

**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***

**Independent Auditor's Report**

Honorable Mayor and Members  
of the City Council  
City of Clearwater  
Wright County, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, the discretely presented EDA and Sewer Authority component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota, as of and for the year ended December 31, 2021, and the related notes to financial statements, which collectively comprise the City's regulatory basis financial statements, and have issued our report thereon dated March 17, 2022. The City prepares its financial statements in accordance with the regulatory basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result, we issued an adverse opinion on accounting principles generally accepted in the United States of America but an unmodified opinion on the regulatory basis of accounting. We have also issued a separate accrual report on the City's enterprise funds.

**Internal Control over Financial Reporting**

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

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

### **Internal Control over Financial Reporting (Continued)**

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 Questioned Costs as audit finding 2021-001 and 2021-002 that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **City's Response to Findings**

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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 the response.

### **Purpose of this Report**

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

**BerganKDV, Ltd.**

Minneapolis, Minnesota  
March 17, 2022



**Report on Compliance for each Major Federal Program  
And Report on Internal Control over Compliance Required  
by the Uniform Guidance**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited the City's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2021. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes.

### **Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of each major fund, the discretely presented EDA and Sewer Authority component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota, as of and for the year ended December 31, 2021, and have issued our report thereon dated March 17, 2022, which contained unmodified opinions on the regulatory financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
March 17, 2022

**City of Clearwater  
Schedule of Findings and Questioned Costs**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

We issued an unmodified opinion on the fair presentation of the financial statements of each major fund and the aggregate remaining fund information in accordance with the regulatory basis of accounting.

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

Yes, Audit Findings 2021-001 and 2021-002  
None reported

Noncompliance material to financial statements noted?

No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs:

Unmodified

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

No  
None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

No

**Identification of Major Programs**

CFDA No.:

66.468  
Capitalization Grants for Drinking Water

Name of Federal Program or Cluster:

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low risk auditee?

No

**City of Clearwater**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Audit Finding 2021-001 – Lack of Segregation of Accounting Duties**

*Criteria or Specific Requirement:*

Internal control that supports the City's ability to initiate record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:*

The City had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management and the City Council are aware of the lack of segregation of accounting duties and have taken certain steps to compensate for the lack of segregation. Due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the City Council, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be all inclusive:

- Controls over the Receipting Process: The Deputy Clerk, or Accountant, or City Administrator in their absence, receives and posts receipts. The Accountant prepares the deposits and enters the deposits in the City's general ledger. The Deputy Clerk or City Administrator makes the deposits at the bank. Receipt vouchers are then matched with the deposit by the Accountant.
- Controls over the Disbursement Process: The Accountant or Deputy Clerk or City Administrator in their absence, processes invoices and prints checks for payments. The Deputy Clerk and the Mayor sign the checks.
- Controls over the Utility Billing Process: The Deputy Clerk calculates and mails utility billings and has the ability to make adjustments to bills. The Accountant, or Deputy Clerk in her absence, posts utility billing information into the general ledger, enters payments from the counter and maintains customer accounts and rates and the bill register.
- Controls over the Journal Entry Process: The City Administrator and Accountant can both initiate transactions and can record journal entries. They are reviewed internally.

*Context:*

This finding impacts the internal control for all significant accounting functions.

**City of Clearwater**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2021-001 – Lack of Segregation of Accounting Duties (Continued)**

*Effect or Potential Effect:*

The lack of adequate segregation of accounting duties could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

*Cause:*

There are a limited number of office employees.

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Views of Responsible Officials and Planned Corrective Action:*

The City has implemented various procedures to compensate for the lack of segregation of accounting duties due to its small staff size. The City Council recognizes this concern and provides oversight and management to ensure proper protocols are adhered to.

**Audit Finding 2021-002 – Material Audit Adjustment**

*Criteria or Specific Requirement:*

Internal control that assures all material adjustments are identified and prepared by City personnel should be established.

*Condition:*

During the course of our engagement, we proposed a material audit adjustment that would not have been identified as a result of the City's existing internal control system and, therefore, could have resulted in a material misstatement of the City's financial statements. The material misstatement detected as a result of audit procedures was corrected by management.

*Context:*

This finding impacts the internal control for all significant accounting functions.

*Effect or Potential Effect:*

Internal controls that fail to identify necessary adjustments could result in material misstatements to the financial statements.

*Cause:*

A complete and accurate review of activity related to debt was not performed sufficiently resulting in material audit adjustments.

**City of Clearwater**  
**Schedule of Findings and Questioned Costs**

**SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**Audit Finding 2021-002 – Material Audit Adjustment (Continued)**

*Recommendation:*

We recommend management review all accounts closely at year-end to detect and correct misstatements of balances.

*Views of Responsible Officials and Planned Corrective Action:*

The City will review year-end reconciliation procedures to improve internal controls to detect and correct misstatements of balances.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no Federal award findings.

There were no questioned costs.

**SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

None

**Minnesota Legal Compliance**

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the regulatory basis financial statements of each major fund, the discretely presented EDA and Sewer Authority component units, and the aggregate remaining fund information of the City of Clearwater, Minnesota as of and for the year ended December 31, 2021, and the related notes to financial statements, and have issued our report thereon dated March 17, 2022.

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

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.

*BerganKDV, Ltd.*

Minneapolis, Minnesota  
March 17, 2022