

**City of Clearwater
Wright County, Minnesota**

Communications Letter

December 31, 2022

**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, 2022, 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 basis 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 weakness identified is 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 7, 2023, 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 7, 2023

City of Clearwater Material Weakness

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.

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

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, 2022. 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 the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022.

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 basic 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 basic 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

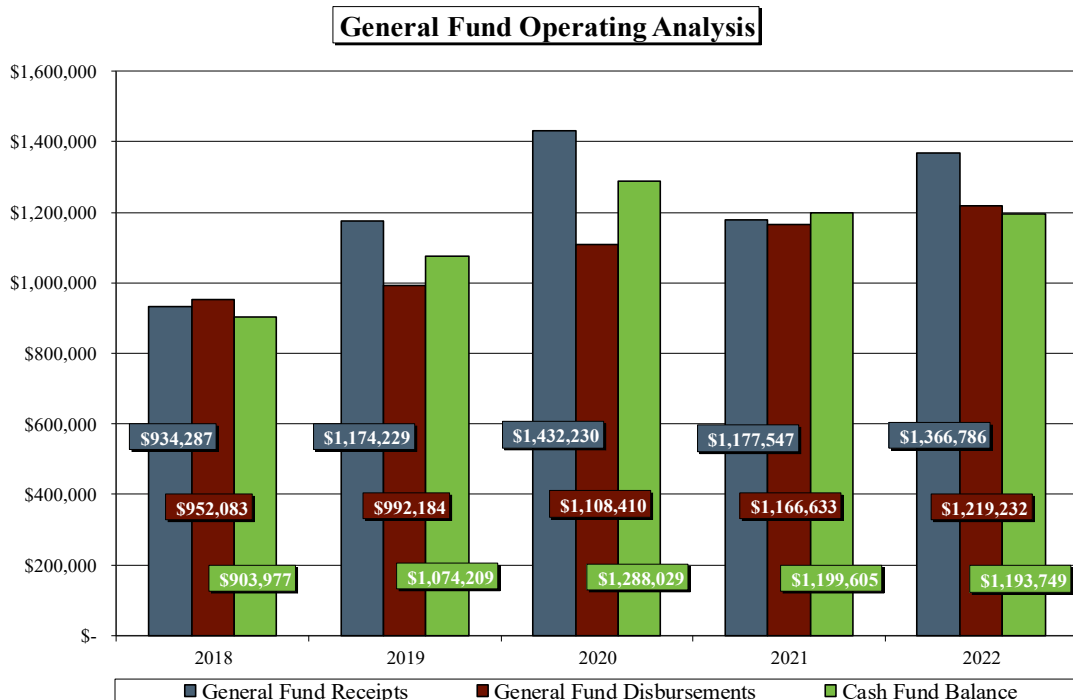
The following pages provide graphic representation of select data pertaining to the financial position and operations of the City for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future 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 increased \$189,239, or 16.1%, in 2022. Taxes and assessments increased \$17,586 from 2021, primarily as a result of an increase in taxes levied. Licenses and permits increased \$41,633, or 72.8% from 2022 due to an increase in building activity in 2022. Other receipts increased \$106,489, or 284.8% primarily due to the reimbursement of hail damage claim related to roofing as well as Central MN Cold Storage and Briggs Properties escrow collections in 2022 which are being paid back to the developer when certain conditions are met.

Total General Fund disbursements increased \$52,599, or 4.5%, from 2021. The most significant increase occurred in Public Works, which increased \$88,666. This increase was primarily due to a portion of the increased costs due to hail damage expenses and general increase in operating supplies, health insurance, and utilities.

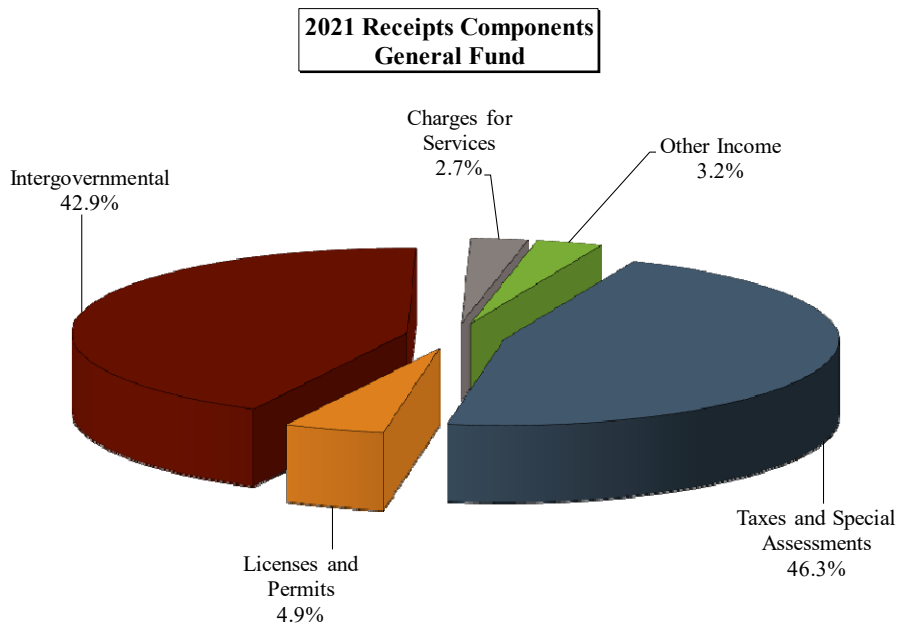
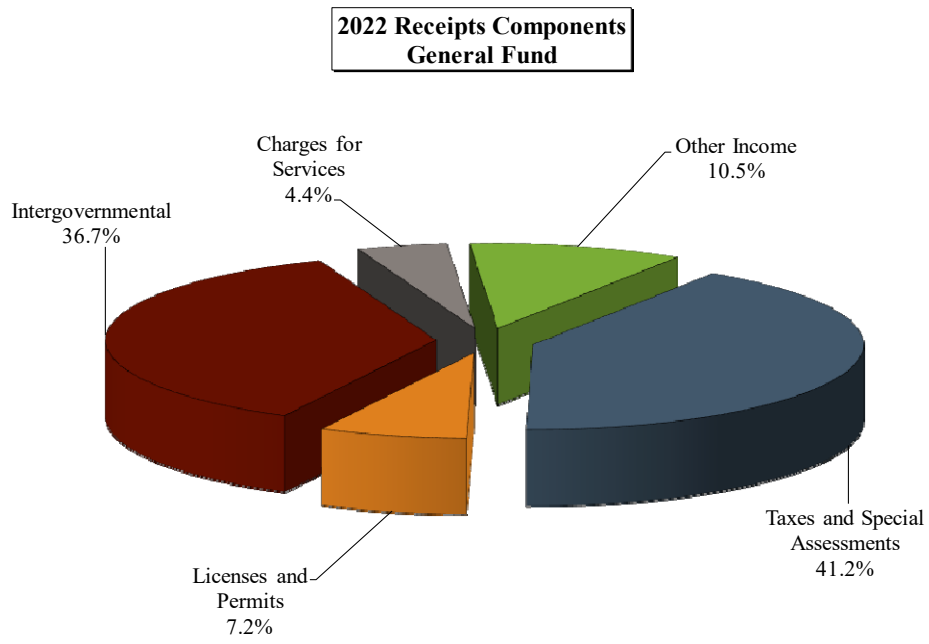
In 2022, the City had a net change in cash fund balance of \$5,856, which decreased the total to \$1,193,749. This cash fund balance represents over 13 months of 2023 General Fund disbursements budget, which exceeds the City's policy of having 50% of the subsequent year's budgeted disbursements in cash fund balance at year end.



City of Clearwater Financial Analysis

General Fund Receipts and Disbursements (Continued)

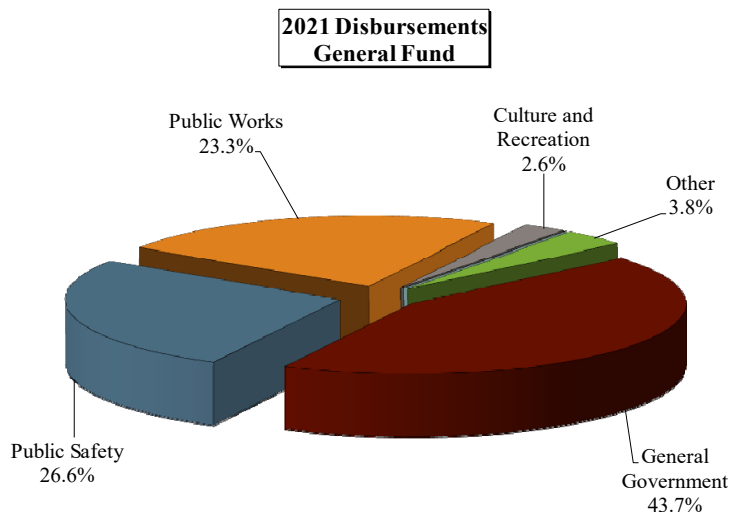
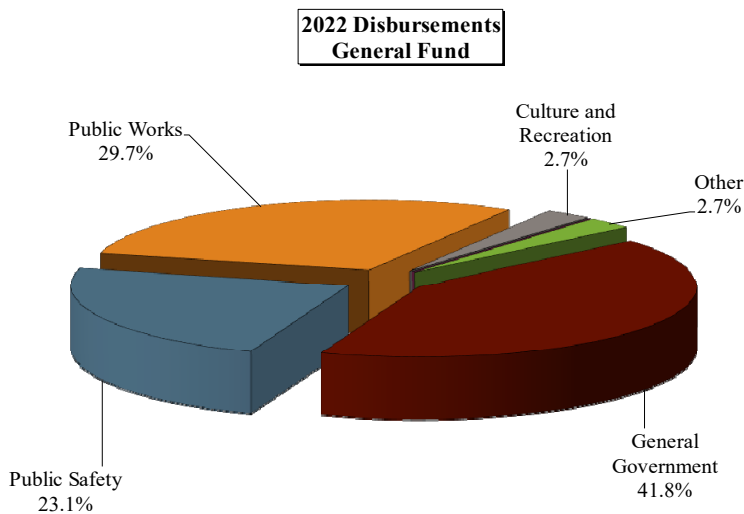
The graphs below display the allocation of General Fund receipts by source for years 2022 and 2021. The largest source of the City's receipts was the general property taxes and special assessments at 41.2%. The second largest source of City receipts was in the intergovernmental category, which consists of LGA, state police and fire aid, Public Employees' Retirement Association (PERA) Aid, small cities assistance grant and CARES funding (36.7%). 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.



City of Clearwater Financial Analysis

General Fund Receipts and Disbursements (Continued)

The graphs below illustrate the General Fund disbursements by function for years 2022 and 2021. General government disbursements accounted for the largest portion of the General Fund disbursements at 41.8%. 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 works function accounted for the second largest portion of the General Fund disbursement in 2022 consisting of disbursements for road construction and maintenance (29.7%). Public safety disbursements at 23.1%, which consists of disbursements for fire and police protection, building inspections and animal control. Culture and recreation disbursements consists of disbursements for the library and parks (2.7%). Other disbursements consist primarily of insurance, which is not specific to one City function (2.7%). Disbursements by function varied slightly from 2021 to 2022. The largest changes was in public works increasing to 29.6% in 2022 compared to 23.3% in 2021, which as mentioned above, was primarily due to a portion of the increased costs due to hail damage expenses and general increase in operating supplies, health insurance, and utilities.



**City of Clearwater
Financial Analysis**

General Fund Receipts and Disbursements (Continued)

	Final Budget	Actual Amounts	Variance With Final Budget - Over (under)
Receipts			
Taxes and special assessments	\$ 565,650	\$ 562,697	\$ (2,953)
Licenses and permits	67,000	98,786	31,786
Intergovernmental	544,460	501,445	(43,015)
Charges for services	37,000	59,974	22,974
Other income	7,006	143,884	136,878
Total receipts	<u>1,221,116</u>	<u>1,366,786</u>	<u>145,670</u>
Disbursements			
General government	394,700	510,068	115,368
Public safety	287,200	282,219	(4,981)
Public works	302,050	360,799	58,749
Culture and recreation	29,300	33,002	3,702
Other	35,800	33,144	(2,656)
Total disbursements	<u>1,049,050</u>	<u>1,219,232</u>	<u>170,182</u>
Excess of receipts over (under) disbursements	172,066	147,554	(24,512)
Other Financing Uses			
Transfers out	(188,889)	(153,410)	35,479
Net change in cash fund balances	<u>\$ (16,823)</u>	<u>\$ (5,856)</u>	<u>\$ 10,967</u>

The General Fund actual receipts exceeded the City's budgeted amount by \$145,670. The primary area over budget was other income by \$136,878 reimbursement of hail damage claim related to roofing as well as Central MN Cold Storage and Briggs Properties escrow collections in 2022 not budgeted for. Licenses and permit fees were over budget \$31,786 due to conservative budgeting. Intergovernmental was under budget by \$43,015 due to the City budgeting for ARPA funds received in 2022 through Wright County, but some of this revenue was recognized as a receivable in the water fund in 2021. This is due to an accounting timing and recognition difference.

Total actual disbursements were over budget by \$170,182. General government was primarily over due to an increase in salary and benefits, increase of taxes and assessments, which were tax payments to CW township for annexed property, and an increase of contracted service due to new contract for organic mosquito spray. Public works was over budget primarily due hail damage relating to roofing.

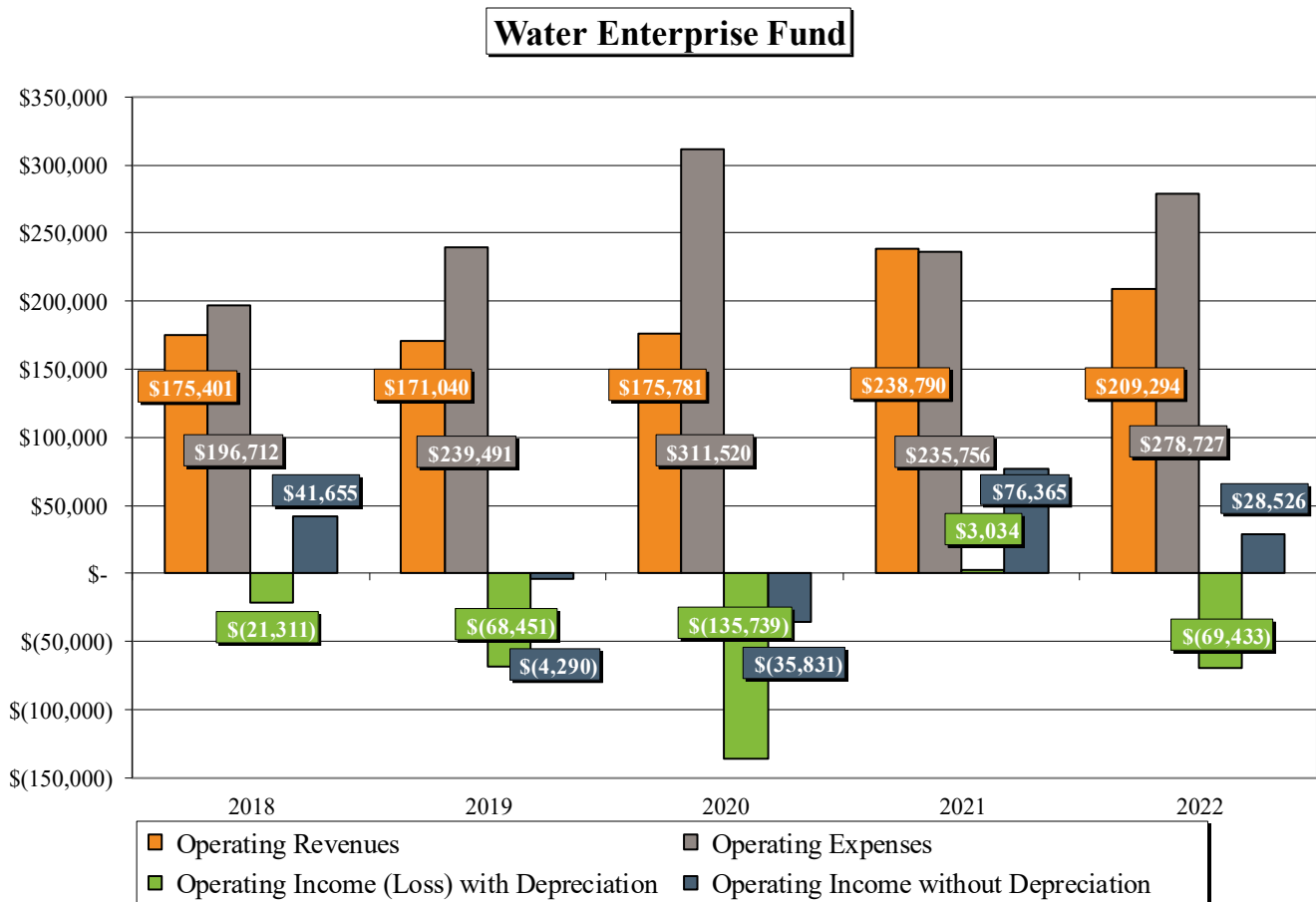
City of Clearwater Financial Analysis

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 decreased \$29,496 from the prior year. This decrease was due to a decrease in water usage offset slightly by rates in 2022. Operating expenses increased from 2021 by \$42,971, or 18.2% largely due to increased depreciation expense, personal service costs, and repairs and maintenance costs. This resulted in an operating loss of \$69,433, including depreciation expense of \$97,959. The fund nonoperating revenues and contributions resulted in an increase in net position of \$131,035.

The unrestricted net position balance increased to \$906,499 at December 31, 2022, compared to \$863,434 at December 31, 2021. The total amount of debt outstanding in the Water Fund at December 31, 2022, was \$1,342,937. Principal and interest due in 2022, totals \$84,147.



City of Clearwater Financial Analysis

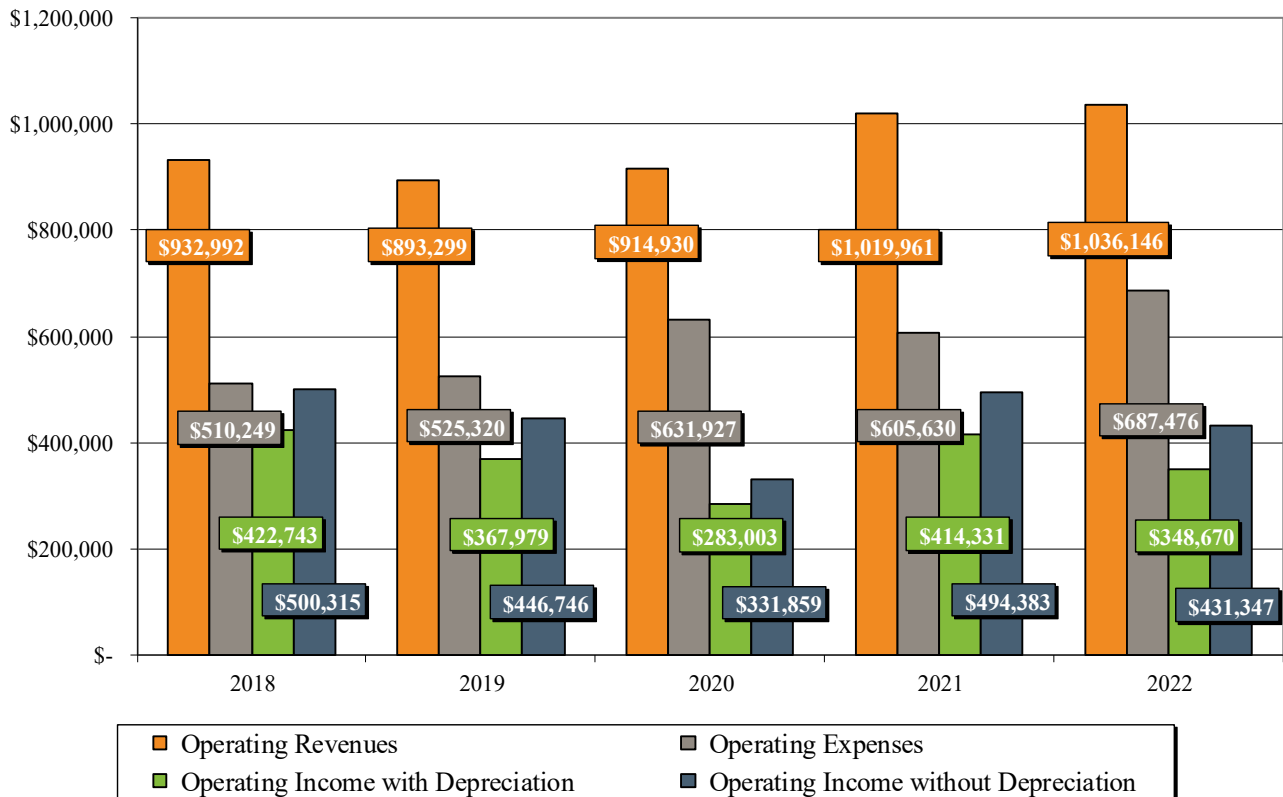
Sewer Enterprise Fund

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 2022.

Sewer Enterprise Fund operating revenues increased by \$16,185 or 1.6% in 2022, due to an increase in rates. Expenses increased \$81,846 or 13.5%, largely due to increased payments to Clear Lake Clearwater Sewer Authority with increased rates during the year and implementation of a new per account surcharge in late 2022. The fund had an operating income of \$348,670, including depreciation expense of \$82,677. This is a decrease of \$65,661 from the prior year.

The cash and cash equivalents balance of the Sewer Enterprise Fund decreased from the prior year by \$35,498. The cash balance of the Sewer Fund totaled \$773,545 at December 31, 2022. Cash and cash equivalents have increased each year over the five years presented besides in the current year, due to expenditures increasing at a higher rate than revenue in 2022, increasing from a balance of \$681,455 in 2018, to \$773,545 in 2022. The total amount of debt outstanding in the Sewer Fund at December 31, 2022, was \$2,355,000. Principal and interest due in 2022, totals \$495,567.

Sewer Enterprise Fund

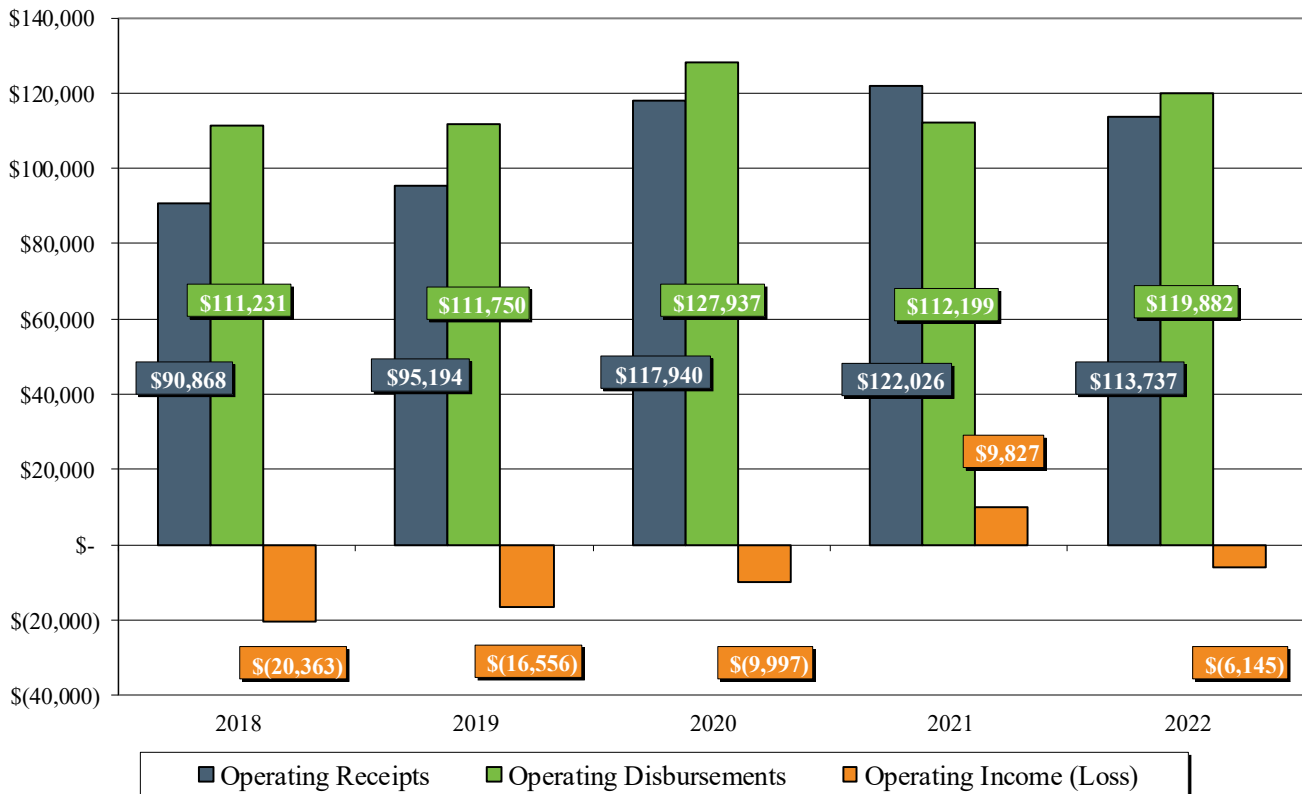


City of Clearwater Financial Analysis

Refuse and Recycling Enterprise Fund

Operating receipts decreased while disbursements increased in 2022. Operating receipts decreased \$8,289, or 6.8% and operating disbursements increased \$7,683, or 6.8%. The operating loss for 2022, was \$6,145. 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 2022, the non-operating receipts offset the operating loss, and the fund had an increase in cash fund balance of \$4,483 before transfers. Cash fund balance was \$33,372 at December 31, 2022, due to operations of the year.

Refuse and Recycling Enterprise Fund



City of Clearwater Emerging Issues

Executive Summary

The following is an executive summary of financial 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 updates include:

- **Accounting Standard Update – GASB Statement No. 96 – Subscription-Based Information Technology Arrangements**
GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The following are extensive summaries 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 these issues with you further and their applicability to your City.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

City of Clearwater Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

City of Clearwater
Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

GASB Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting – understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

City of Clearwater Emerging Issues

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62 (Continued)*

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

City of Clearwater
Emerging Issues

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences* (Continued)

This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

**City of Clearwater
Wright County, Minnesota
Regulatory Financial Statements
December 31, 2022**

**City of Clearwater
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**City of Clearwater
Elected Officials and Administration
December 31, 2022**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2024
Kris Crandall	Council Member	December 31, 2022
Wayne Kruchten	Council Member	December 31, 2022
Michael Lenz	Council Member	December 31, 2022
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, 2022, 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, 2022.

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, 2022, 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, 2022, 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.

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.
- 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 7, 2023, 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 7, 2023

REGULATORY BASIS FINANCIAL STATEMENTS

City of Clearwater
Statement of Balances Arising from Cash Transactions -
Governmental Funds and Component Unit
December 31, 2022

	General Fund (100, 260, 417, 425)	Special Revenue		Capital Project
		Fire Department (230)	Local Option Sales Tax (270)	Public Works Capital (430)
Assets				
Cash and investments	\$ 1,193,749	\$ 143,144	\$ 1,842,004	\$ 501,607
Cash Fund Balances				
Restricted	\$ 33,205	\$ 143,144	\$ 1,842,004	501,607
Assigned	-	-	-	-
Unassigned	1,160,544	-	-	-
Total cash fund balances	\$ 1,193,749	\$ 143,144	\$ 1,842,004	\$ 501,607

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
<u>\$ 627,964</u>	<u>\$ 4,308,468</u>	<u>\$ 264,168</u>
\$ 417,438	\$ 2,937,398	\$ 264,168
210,526	210,526	-
-	1,160,544	-
<u>\$ 627,964</u>	<u>\$ 4,308,468</u>	<u>\$ 264,168</u>

City of Clearwater
Statement of Cash Receipts, Disbursements, and
Changes in Cash Fund Balances -
Governmental Funds and Component Unit
Year Ended December 31, 2022

	General Fund (100, 260, 417, 425)	Special Revenue		Capital Projects
		Fire Department (230)	Local Option Sales Tax (270)	Public Works Capital (430)
Receipts				
General property taxes	\$ 550,751	\$ 141,920	\$ -	\$ 85,124
Cable franchise taxes	11,821	-	-	-
Miscellaneous taxes	-	-	340,405	-
Special assessments	125	-	-	-
Licenses and permits	98,786	-	-	-
Intergovernmental	501,445	45,348	-	-
Charges for services	59,974	149,328	-	-
Fine and forfeitures	8,379	-	-	-
Miscellaneous				
Park dedication fees	-	-	-	-
Interest income	(10,936)	(1,501)	(17,967)	(4,893)
Refunds and reimbursements	85,886	957	-	-
Donations	4,400	2,950	-	-
Other	56,155	-	-	-
Total receipts	<u>1,366,786</u>	<u>339,002</u>	<u>322,438</u>	<u>80,231</u>
Disbursements				
Current				
General government	510,068	-	9,253	-
Public safety	282,219	206,858	-	-
Public works	292,349	-	-	-
Culture and recreation	33,002	-	-	-
Economic development	-	-	-	-
Miscellaneous	33,144	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
Public safety	-	-	-	-
Public works	68,450	-	-	33,471
Culture and recreation	-	-	97,370	-
Total disbursements	<u>1,219,232</u>	<u>206,858</u>	<u>106,623</u>	<u>33,471</u>
Excess of receipts over (under) disbursements	147,554	132,144	215,815	46,760
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(153,410)	(159,845)	-	(8,000)
Total other financing sources (uses)	<u>(153,410)</u>	<u>(159,845)</u>	<u>-</u>	<u>(8,000)</u>
Net change in cash fund balances	(5,856)	(27,701)	215,815	38,760
Cash Fund Balances				
Beginning of year	<u>1,199,605</u>	<u>170,845</u>	<u>1,626,189</u>	<u>462,847</u>
End of year	<u>\$ 1,193,749</u>	<u>\$ 143,144</u>	<u>\$ 1,842,004</u>	<u>\$ 501,607</u>

See notes to regulatory financial statements.

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
\$ 420,256	\$ 1,198,051	\$ 80,494
-	11,821	-
38	340,443	-
48,497	48,622	-
-	98,786	-
-	546,793	-
-	209,302	-
-	8,379	-
400	400	-
(6,125)	(41,422)	(2,577)
4,100	90,943	-
61,323	68,673	-
13,412	69,567	-
<u>541,901</u>	<u>2,650,358</u>	<u>77,917</u>
4,945	524,266	-
-	489,077	-
18,862	311,211	-
92,666	125,668	-
-	-	9,957
-	33,144	-
210,000	210,000	-
78,507	78,507	-
171,647	171,647	-
207,641	309,562	-
20,550	117,920	-
<u>804,818</u>	<u>2,371,002</u>	<u>9,957</u>
(262,917)	279,356	67,960
178,568	178,568	-
-	(321,255)	-
<u>178,568</u>	<u>(142,687)</u>	<u>-</u>
(84,349)	136,669	67,960
<u>712,313</u>	<u>4,171,799</u>	<u>196,208</u>
<u>\$ 627,964</u>	<u>\$ 4,308,468</u>	<u>\$ 264,168</u>

City of Clearwater
Statement of Balances Arising from Cash Transactions -
Proprietary Funds and Component Unit
December 31, 2022

	Water (600)	Sewer (601)	Refuse and Recycling (603)	Storm Sewer (651)
Assets				
Cash and cash equivalents	\$ 948,748	\$ 773,545	\$ 33,372	\$ 79,688
Total assets	<u>\$ 948,748</u>	<u>\$ 773,545</u>	<u>\$ 33,372</u>	<u>\$ 79,688</u>
Net Cash Position				
Unrestricted	\$ 948,748	\$ 773,545	\$ 33,372	\$ 79,688
Total net cash position	<u>\$ 948,748</u>	<u>\$ 773,545</u>	<u>\$ 33,372</u>	<u>\$ 79,688</u>

<u>Total</u>	<u>Sewer Authority Component Unit</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>

City of Clearwater
Statement of Receipts, Disbursements, and
Changes in Net Cash Position -
Proprietary Funds and Component Unit
Year Ended December 31, 2022

	Water (600)	Sewer (601)	Refuse and Recycling (603)	Storm Sewer (651)
Operating receipts				
Charges for services	\$ 209,126	\$ 1,024,109	\$ 112,141	\$ 24,795
Connection fees, permits, and penalties	-	11,128	-	-
Misc. operating revenues	1,258	7,463	1,596	160
Total operating receipts	<u>210,384</u>	<u>1,042,700</u>	<u>113,737</u>	<u>24,955</u>
Operating disbursements				
Personal services	104,749	128,356	11,740	-
Contracted services	704	24	99,248	-
Supplies and meters	18,033	3,990	575	-
Professional services	5,563	-	-	-
Utilities	18,937	5,638	-	-
Repairs and maintenance	9,704	6,761	-	-
Sewer authority charges	-	420,918	-	-
Miscellaneous expenses	17,616	15,152	8,319	-
Total operating disbursements	<u>175,306</u>	<u>580,839</u>	<u>119,882</u>	<u>-</u>
Excess of operating receipts over (under) operating disbursements	35,078	461,861	(6,145)	24,955
Nonoperating receipts (disbursements)				
Interest and investment income	(9,254)	(7,545)	(326)	(777)
Property taxes	51,824	-	-	-
Intergovernmental	45,359	-	3,409	-
Trunk and access charges	20,000	28,000	-	-
Other	12,441	-	7,745	-
Interest expense	(24,126)	(47,567)	-	-
Total nonoperating receipts (disbursements)	<u>96,244</u>	<u>(27,112)</u>	<u>10,828</u>	<u>(777)</u>
Net receipts (disbursements) before capital outlay, debt transactions, transfers, and contributions	131,322	434,749	4,683	24,178
Capital outlay	(295,079)	(26,247)	-	-
Debt principal	(60,021)	(448,000)	-	-
Issuance of long-term debt	138,324	-	-	-
Transfers in	138,687	4,000	-	-
Change in net cash position	53,233	(35,498)	4,683	24,178
Net cash position				
Beginning of year	<u>895,515</u>	<u>809,043</u>	<u>28,689</u>	<u>55,510</u>
End of year	<u>\$ 948,748</u>	<u>\$ 773,545</u>	<u>\$ 33,372</u>	<u>\$ 79,688</u>

See notes to regulatory financial statements.

<u>Total</u>	<u>Sewer Authority Component Unit</u>
\$ 1,370,171	\$ 508,975
11,128	-
10,477	2,772
<u>1,391,776</u>	<u>511,747</u>
244,845	175,426
99,976	-
22,598	82,962
5,563	92,636
24,575	101,359
16,465	-
420,918	-
41,087	2,705
<u>876,027</u>	<u>455,088</u>
515,749	56,659
(17,902)	647
51,824	-
48,768	-
48,000	-
20,186	-
<u>(71,693)</u>	<u>-</u>
<u>79,183</u>	<u>647</u>
594,932	57,306
(321,326)	(165,571)
(508,021)	-
138,324	-
142,687	-
<u>46,596</u>	<u>(108,265)</u>
<u>1,788,757</u>	<u>633,866</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>

City of Clearwater
Statement of Cash Flows - Cash Basis -
Proprietary Funds and Component Unit
Year Ended December 31, 2022

	<u>Water (600)</u>	<u>Sewer (601)</u>	<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>
Cash Flows - Operating Activities				
Receipts from customers	\$ 210,384	\$ 1,042,700	\$ 113,737	\$ 24,955
Payments to suppliers	(70,557)	(452,483)	(108,142)	-
Payments to employees	(104,749)	(128,356)	(11,740)	-
Other operating payments	-	-	-	-
Net cash flows - operating activities	<u>35,078</u>	<u>461,861</u>	<u>(6,145)</u>	<u>24,955</u>
Cash Flows - Noncapital Financing Activities				
Other revenue	32,441	28,000	7,745	-
Property taxes	51,824	-	-	-
Intergovernmental	45,359	-	3,409	-
Transfers from other funds	138,687	4,000	-	-
Net cash flows - noncapital financing activities	<u>268,311</u>	<u>32,000</u>	<u>11,154</u>	<u>-</u>
Cash Flows - Capital and Related Financing Activities				
Purchases of capital assets	(295,079)	(26,247)	-	-
Principal paid on capital debt	(60,021)	(448,000)	-	-
Interest paid on capital debt	(24,126)	(47,567)	-	-
Bond proceeds	138,324	-	-	-
Net cash flows - capital and related financing activities	<u>(240,902)</u>	<u>(521,814)</u>	<u>-</u>	<u>-</u>
Cash Flows - Investing Activities				
Interest and dividends	(9,254)	(7,545)	(326)	(777)
Net change in cash and cash equivalents	53,233	(35,498)	4,683	24,178
Cash and Cash Equivalents				
Beginning of year	<u>895,515</u>	<u>809,043</u>	<u>28,689</u>	<u>55,510</u>
End of year	<u>\$ 948,748</u>	<u>\$ 773,545</u>	<u>\$ 33,372</u>	<u>\$ 79,688</u>

<u>Total</u>	<u>Sewer Authority Component Unit</u>
\$ 1,391,776	\$ 508,975
(631,182)	(276,758)
(244,845)	(174,972)
-	2,772
<u>515,749</u>	<u>60,017</u>
68,186	-
51,824	-
48,768	-
<u>142,687</u>	<u>-</u>
<u>311,465</u>	<u>-</u>
(321,326)	(168,929)
(508,021)	-
(71,693)	-
<u>138,324</u>	<u>-</u>
<u>(762,716)</u>	<u>(168,929)</u>
<u>(17,902)</u>	<u>647</u>
46,596	(108,265)
<u>1,788,757</u>	<u>633,866</u>
<u>\$ 1,835,353</u>	<u>\$ 525,601</u>

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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):

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, 2022.

	<u>Appropriation</u>	<u>Disbursements</u>
General Fund	\$ 1,049,050	\$ 1,219,232

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, 2022, 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	\$ 2,178,381
Savings	1,675,780
Certificates of deposits	<u>906,876</u>
Total deposits	<u><u>\$ 4,761,037</u></u>

B. Investments

As of December 31, 2022, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI Y	\$ 20,688	N/A	N/A
US Treasury Note 8UN8	99,729	02/15/23	Aaa
US Treasury Note 8V80	48,681	01/31/24	Aaa
US Treasury Note CBM2	142,518	02/15/24	Aaa
US Treasury Note 8B66	48,918	02/15/24	Aaa
US Treasury Note 8ZC7	140,022	02/28/25	Aaa
US Treasury Note 8ZF0	45,922	03/31/25	Aaa
US Treasury Note 84R8	48,338	05/31/25	Aaa
US Treasury Note 86F2	47,490	02/28/26	Aaa
US Treasury Note 87B0	46,388	06/30/26	Aaa
US Treasury Note 82A7	45,574	08/15/26	Aaa
US Treasury Note 8YQ7	45,638	10/31/26	Aaa
US Treasury Note 8U24	46,228	11/15/26	Aaa
US Treasury Note 8V98	46,529	02/15/27	Aaa
Ishares Treasury Bond	172,404	N/A	N/A
4M Fund (General)	405,276	N/A	N/A
4M Fund (2019 SEA Project [Municipal Advisory Account])	<u>196,459</u>	N/A	N/A
Total	<u><u>\$ 1,646,802</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.

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, 2022:

- \$1,045,067 of investments are valued using quoted market prices (Level 1 inputs)

C. Balances

As of December 31, 2022, the City had deposits and investments as follows:

Deposits (Note 3.A.)	\$ 4,761,037
Petty cash	150
Investments (Note 3.B.)	<u>1,646,802</u>
Total deposits and investments	<u><u>\$ 6,407,989</u></u>

City of Clearwater
Notes to Regulatory Financial Statements

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balances

Deposits and investments are presented in the December 31, 2022, regulatory financial statements as follows:

Statement of balances arising from cash	
Transactions – governmental funds	
Cash and investments	\$ 4,308,468
Cash and investments – component unit	264,168
Statement of balances arising from cash	
Transactions – proprietary funds	
Cash and cash equivalents – Water Fund	948,748
Cash and cash equivalents – Sewer Fund	773,545
Cash and cash equivalents – Refuse and Recycling Fund	33,372
Cash and cash equivalents – Storm Sewer	<u>79,688</u>
Total deposits and investments	<u><u>\$ 6,407,989</u></u>

NOTE 4 – LEASE RECEIVABLE

The City leases two properties for the use of land to Midco and Arvig Enterprises Inc. The lease with Midco commenced on September 6, 2012, for 15 years with annual rent of \$1,800 increasing 3% annually. The lease with Arvig Enterprises Inc commenced on October 1, 2021, for 5 years with annual rent of \$3,000 increasing 3% annually. As of December 31, 2022, the City has a lease receivable of \$18,823.

NOTE 5 – 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 5 – 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	\$ 1,245,000	\$ 85,000
2019 G.O. Improvement Bond	8/1/2019	3.00%	1,030,000	12/15/39	920,000	40,000
G.O. Equipment Certificates						
2020 G.O. Equipment Certificate	8/19/2020	0.95%-1.45%	790,000	12/15/29	623,000	86,000
Total					<u>2,788,000</u>	<u>211,000</u>
Compensated absences						
Total Governmental Funds					<u>18,531</u>	<u>18,531</u>
					<u>2,806,531</u>	<u>229,531</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	2,355,000	455,000
2021 G.O. PFA Water Revenue Note	06/24/21	1.00%	1,114,021*	08/20/41	807,937	38,937
G.O. bonds						
2015 G.O. Improvement Bond	05/15/15	3.00%-3.25%	780,000	12/01/35	535,000	35,000
Total					<u>3,697,937</u>	<u>528,937</u>
Compensated absences						
Total Proprietary Funds					<u>12,165</u>	<u>10,384</u>
					<u>3,710,102</u>	<u>539,321</u>
Total all long-term liabilities					<u>\$ 6,516,633</u>	<u>\$ 768,852</u>

* The G.O. PFA Water Revenue Note project is completed, resulting in the City only drawing \$832,958 of the total award of the \$1,114,021.

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 5 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental funds				
Bonds payable				
G.O. improvement bonds	\$ 2,290,000	\$ -	\$ 125,000	\$ 2,165,000
Equipment certificates				
G.O. equipment certificates	708,000	-	85,000	623,000
Compensated absences				
Total governmental activities	20,937	19,426	21,832	18,531
	3,018,937	19,426	231,832	2,806,531
Proprietary funds				
Note from direct borrowing				
G.O. PFA sewer revenue note	2,803,000	-	448,000	2,355,000
G.O. PFA water revenue note	694,634	138,324	25,021	807,937
Bonds payable				
G.O. improvement bonds	570,000	-	35,000	535,000
Compensated absences				
Total proprietary funds	11,143	12,151	11,129	12,165
	4,078,777	150,475	519,150	3,710,102
Total long-term liabilities				
	\$ 7,097,714	\$ 169,901	\$ 750,982	\$ 6,516,633

D. Annual Debt Service Obligations

Years Ending December 31,	Governmental Funds			Proprietary Funds		
	G.O. Improvement Bonds			G.O. Improvement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	140,000	50,125	190,125	40,000	12,213	52,213
2028-2032	760,000	185,375	945,375	210,000	42,913	252,913
2033-2037	610,000	68,163	678,163	145,000	9,588	154,588
2038-2039	135,000	6,150	141,150	-	-	-
Total	\$ 2,165,000	\$ 549,763	\$2,714,763	\$ 535,000	\$ 124,066	\$ 659,066

City of Clearwater
Notes to Regulatory Financial Statements

NOTE 5 – 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
2023	\$ 86,000	\$ 7,729	\$ 93,729	\$ 493,937	\$ 48,044	\$ 541,981
2024	87,000	6,892	93,892	502,000	39,933	541,933
2025	88,000	6,085	94,085	511,000	31,686	542,686
2026	89,000	5,248	94,248	519,000	23,293	542,293
2027	90,000	3,959	93,959	527,000	14,764	541,764
2028-2032	183,000	3,988	186,988	208,000	26,370	234,370
2033-2037	-	-	-	219,000	15,770	234,770
2038-2041	-	-	-	183,000	4,590	187,590
Total	\$ 623,000	\$ 33,901	\$ 656,901	\$ 3,162,937	\$ 204,450	\$ 3,367,387

NOTE 6 – 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	Other Governmental Funds	Total Governmental Funds
Restricted for						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 232,670	\$ 232,670
Voter approved projects	-	-	1,842,004	-	-	1,842,004
Fire Department	-	143,144	-	-	-	143,144
Capital projects	-	-	-	501,607	164,268	665,875
Park development	-	-	-	-	19,415	19,415
Tax increment financing	-	-	-	-	1,085	1,085
Developer escrow	33,205	-	-	-	-	33,205
Total restricted	33,205	143,144	1,842,004	501,607	417,438	2,937,398
Assigned for:						
Fire truck capital	-	-	-	-	210,526	210,526
Unassigned	1,160,544	-	-	-	-	1,160,544
Total	\$ 1,193,749	\$ 143,144	\$ 1,842,004	\$ 501,607	\$ 627,964	\$ 4,308,468

The EDA Component Unit has restricted cash fund balance of \$264,168 for economic development.

	Water	Sewer	Refuse and Recycling	Storm Sewer	Total Proprietary Funds
Unrestricted	\$ 948,748	\$ 773,545	\$ 33,372	\$ 79,688	\$ 1,835,353

The Sewer Authority Component Unit has unrestricted cash position of \$525,601.

City of Clearwater
Notes to Regulatory Financial Statements

NOTE 7 – 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 2022 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2022, 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 8 – 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 8 – 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 are 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.

City of Clearwater
Notes to Regulatory Financial Statements

NOTE 8 – 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 2022. In 2022, 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, 2022, 2021, and 2020, were \$32,388, 30,107 and \$29,335, respectively.

NOTE 9 – INTERFUND TRANSFERS

Transfers during the year ended December 31, 2022, were as follows:

	Transfers In		
	Other Governmental Funds	Enterprise Funds	Total
Transfers out			
General Fund	\$ 18,723	\$ 134,687	\$ 153,410
Public Works Capital	-	8,000	8,000
Fire Department	159,845	-	159,845
	<u>178,568</u>	<u>142,687</u>	<u>321,255</u>
Total	<u>\$ 178,568</u>	<u>\$ 142,687</u>	<u>\$ 321,255</u>

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

NOTE 10 – NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* establishes that a Subscription-Based Information Technology Arrangement (SBITA) results in a right-to-use subscription asset and a corresponding liability. Under this statement, a governmental entity generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. This statement will be effective for the year ending December 31, 2023.

SUPPLEMENTARY INFORMATION

City of Clearwater
Schedule of Receipts, Disbursements, and Changes
in Cash Fund Balances - Budget and Actual -
General Fund
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Receipts				
Taxes				
Property taxes	\$ 554,650	\$ 554,650	\$ 550,751	\$ (3,899)
Cable franchise taxes	10,000	10,000	11,821	1,821
Total taxes	<u>564,650</u>	<u>564,650</u>	<u>562,572</u>	<u>(2,078)</u>
Special assessments	1,000	1,000	125	(875)
Intergovernmental				
State grants and aids				
Local government aid	352,294	352,294	352,799	505
Other state aid	22,000	22,000	13,959	(8,041)
Federal grants and aids				
ARPA federal aid	-	170,166	134,687	(35,479)
Total intergovernmental	<u>374,294</u>	<u>544,460</u>	<u>501,445</u>	<u>(43,015)</u>
License and permits				
Licenses and permits	15,000	15,000	19,968	4,968
Building permits	50,000	50,000	77,568	27,568
Assessment searches	2,000	2,000	1,250	(750)
Total licenses and permits	<u>67,000</u>	<u>67,000</u>	<u>98,786</u>	<u>31,786</u>
Charges for services				
Planning and zoning	2,500	2,500	34,819	32,319
Miscellaneous	34,500	34,500	25,155	(9,345)
Total charges for services	<u>37,000</u>	<u>37,000</u>	<u>59,974</u>	<u>22,974</u>
Fine and forfeitures	-	-	8,379	8,379
Miscellaneous				
Refunds and reimbursements	-	-	85,886	85,886
Donations	-	-	4,400	4,400
Interest income	7,000	7,000	(10,936)	(17,936)
Escrow agreement proceeds	6	6	56,155	56,149
Total miscellaneous	<u>7,006</u>	<u>7,006</u>	<u>135,505</u>	<u>128,499</u>
Total receipts	<u>1,050,950</u>	<u>1,221,116</u>	<u>1,366,786</u>	<u>145,670</u>

City of Clearwater
Schedule of Receipts, Disbursements, and Changes
in Cash Fund Balances - Budget and Actual -
General Fund
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Disbursements				
General government				
Mayor and council				
Current	\$ 29,200	\$ 29,200	\$ 17,177	\$ (12,023)
Clerk/treasurer				
Current	197,500	197,500	212,650	15,150
Elections				
Current	11,800	11,800	4,524	(7,276)
Audit and accounting				
Current	28,200	28,200	30,355	2,155
Legal				
Current	12,000	12,000	21,539	9,539
Engineering				
Current	15,000	15,000	15,701	701
Assessor				
Current	12,900	12,900	13,264	364
Planning and zoning				
Current	12,030	12,030	18,308	6,278
Miscellaneous general government				
Current	66,070	66,070	176,550	110,480
Capital outlay	10,000	10,000	-	(10,000)
Total general government	<u>394,700</u>	<u>394,700</u>	<u>510,068</u>	<u>115,368</u>
Public safety				
Police protection				
Current	245,900	245,900	255,728	9,828
Building inspection				
Current	41,000	41,000	26,416	(14,584)
Animal control				
Current	300	300	75	(225)
Total public safety	<u>287,200</u>	<u>287,200</u>	<u>282,219</u>	<u>(4,981)</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, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Disbursements				
Public works				
Streets and highways				
Current	\$ 302,050	\$ 302,050	\$ 292,349	\$ (9,701)
Capital outlay	36,000	-	68,450	68,450
Total public works	<u>338,050</u>	<u>302,050</u>	<u>360,799</u>	<u>58,749</u>
Culture and recreation				
Parks				
Current	100	100	111	11
Libraries				
Current	29,200	29,200	32,891	3,691
Total culture and recreation	<u>29,300</u>	<u>29,300</u>	<u>33,002</u>	<u>3,702</u>
Miscellaneous				
Other				
Current	35,800	35,800	33,144	(2,656)
Total disbursements	<u>1,085,050</u>	<u>1,049,050</u>	<u>1,219,232</u>	<u>170,182</u>
Excess of receipts over (under) disbursements	(34,100)	172,066	147,554	(24,512)
Other Financing Uses				
Transfers out	-	(188,889)	(153,410)	35,479
Net change in cash fund balances	<u>\$ (34,100)</u>	<u>\$ (16,823)</u>	<u>(5,856)</u>	<u>\$ 10,967</u>
Cash Fund Balances				
Beginning of year			<u>1,199,605</u>	
End of year			<u>\$ 1,193,749</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, 2022

	Budgeted	Actual	Variance with
	Original and	Amounts	Final Budget -
	Final		Over (Under)
Receipts			
Taxes			
Property taxes	\$ 142,973	\$ 141,920	\$ (1,053)
Intergovernmental			
State grants and aids			
Fire aid	30,500	45,348	14,848
Charges for services			
Public safety	190,777	149,328	(41,449)
Miscellaneous			
Refunds and reimbursements	-	957	957
Donations	-	2,950	2,950
Interest income	-	(1,501)	(1,501)
Total miscellaneous	-	2,406	2,406
Total receipts	364,250	339,002	(25,248)
Disbursements			
Public safety			
Fire			
Current	204,405	206,858	2,453
Excess of receipts over disbursements	159,845	132,144	(27,701)
Other Financing Uses			
Transfers out	(159,845)	(159,845)	-
Net change in cash fund balances	\$ -	(27,701)	\$ (27,701)
Cash Fund Balances			
Beginning of year		170,845	
End of year		\$ 143,144	

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, 2022

	Budgeted Amounts	Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final		
Receipts			
Taxes			
Miscellaneous taxes	\$ 250,000	\$ 340,405	\$ 90,405
Miscellaneous			
Interest income	10,000	(17,967)	(27,967)
Total receipts	260,000	322,438	62,438
Disbursements			
General government			
Current	8,000	9,253	1,253
Culture and recreation			
Parks			
Capital outlay	252,000	97,370	(154,630)
Total disbursements	260,000	106,623	(153,377)
Net change in cash fund balances	\$ -	215,815	\$ 215,815
Cash Fund Balances			
Beginning of year		1,626,189	
End of year		\$ 1,842,004	

City of Clearwater
Combining Statement of Balances Arising From
Cash Transactions - Nonmajor Governmental Funds
December 31, 2022

	Special Revenue			Debt Service	
	Park Dedication Fee (200)	Parks and Recreation (240)	TIF 1-1 Mississippi Ridge (501)	G.O. Improvement Bonds of 2015 (315)	G.O. Improvement Bonds of 2019 (316)
Assets					
Cash and investments	\$ 3,281	\$ 16,134	\$ 1,085	\$ 156,289	\$ 68,168
Cash Fund Balances					
Restricted	\$ 3,281	\$ 16,134	\$ 1,085	\$ 156,289	\$ 68,168
Assigned	-	-	-	-	-
Total Cash Fund Balances	\$ 3,281	\$ 16,134	\$ 1,085	\$ 156,289	68,168
Total liabilities and Cash fund balances	\$ 3,281	\$ 16,134	\$ 1,085	\$ 156,289	\$ 68,168

Debt Service	Capital Projects				
G.O. Equipmnt Certificate 2020A (317)	Street Capital (415)	2019 Street Improvement Project (416)	Fire Capital Fund (420)	Fire Truck Capital Fund (421)	Total Governmental Funds
\$ 8,213	\$ 42,026	\$ 46,083	\$ 76,159	\$ 210,526	\$ 627,964
\$ 8,213	\$ 42,026	\$ 46,083	\$ 76,159	\$ -	\$ 417,438
-	-	-	-	210,526	210,526
<u>\$ 8,213</u>	<u>\$ 42,026</u>	<u>\$ 46,083</u>	<u>\$ 76,159</u>	<u>\$ 210,526</u>	<u>\$ 627,964</u>
<u>\$ 8,213</u>	<u>\$ 42,026</u>	<u>\$ 46,083</u>	<u>\$ 76,159</u>	<u>\$ 210,526</u>	<u>\$ 627,964</u>

City of Clearwater
Combining Statement of Receipts, Disbursements, and
Changes in Cash Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2022

	Special Revenue			Debt Service	
	Park	Parks and	TIF 1-1	G.O.	G.O.
	Dedication Fee (200)	Recreation (240)	Mississippi Ridge (501)	Improvement Bonds of 2015 (315)	Improvement Bonds of 2019 (316)
Receipts					
General property taxes	\$ -	\$ 76,203	\$ 6,041	\$ 97,462	\$ 52,616
Miscellaneous taxes	-	38	-	-	-
Special assessments	-	-	-	23,558	24,939
Miscellaneous					
Park dedication fees	400	-	-	-	-
Interest income	(32)	(157)	(11)	(1,524)	(665)
Refunds and reimbursements	-	4,100	-	-	-
Donations	-	-	-	-	-
Other	-	13,412	-	-	-
Total receipts	<u>368</u>	<u>93,596</u>	<u>6,030</u>	<u>119,496</u>	<u>76,890</u>
Disbursements					
Current					
General government	-	-	4,945	-	-
Public works	-	-	-	-	-
Culture and recreation	-	92,666	-	-	-
Debt service					
Principal	-	-	-	85,000	40,000
Interest and other charges	-	-	-	41,171	28,800
Capital outlay					
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	20,550	-	-	-
Total disbursements	<u>-</u>	<u>113,216</u>	<u>4,945</u>	<u>126,171</u>	<u>68,800</u>
Excess of receipts over (under) disbursements	368	(19,620)	1,085	(6,675)	8,090
Other Financing Sources					
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash fund balances	368	(19,620)	1,085	(6,675)	8,090
Cash Fund Balances					
Beginning of year	<u>2,913</u>	<u>35,754</u>	<u>-</u>	<u>162,964</u>	<u>60,078</u>
End of year	<u>\$ 3,281</u>	<u>\$ 16,134</u>	<u>\$ 1,085</u>	<u>\$ 156,289</u>	<u>\$ 68,168</u>

Debt Service G.O. Equipmrent Certificate 2020A (317)	Capital Projects					Total Governmental Funds
Street Capital (415)	2019 Street Improvement Project (416)	Fire Capital Fund (420)	Fire Truck Capital Fund (421)			
\$ 97,411	\$ 90,523	\$ -	\$ -	\$ -	\$ 420,256	
-	-	-	-	-	38	
-	-	-	-	-	48,497	
-	-	-	-	-	400	
(80)	(410)	(449)	(743)	(2,054)	(6,125)	
-	-	-	-	-	4,100	
-	-	-	61,323	-	61,323	
-	-	-	-	-	13,412	
<u>97,331</u>	<u>90,113</u>	<u>(449)</u>	<u>60,580</u>	<u>(2,054)</u>	<u>541,901</u>	
-	-	-	-	-	4,945	
-	18,862	-	-	-	18,862	
-	-	-	-	-	92,666	
85,000	-	-	-	-	210,000	
8,536	-	-	-	-	78,507	
-	-	-	171,647	-	171,647	
-	207,641	-	-	-	207,641	
-	-	-	-	-	20,550	
<u>93,536</u>	<u>226,503</u>	<u>-</u>	<u>171,647</u>	<u>-</u>	<u>804,818</u>	
3,795	(136,390)	(449)	(111,067)	(2,054)	(262,917)	
-	18,723	-	66,295	93,550	178,568	
3,795	(117,667)	(449)	(44,772)	91,496	(84,349)	
4,418	159,693	46,532	120,931	119,030	712,313	
<u>\$ 8,213</u>	<u>\$ 42,026</u>	<u>\$ 46,083</u>	<u>\$ 76,159</u>	<u>\$ 210,526</u>	<u>\$ 627,964</u>	

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ADDITIONAL SUPPLEMENTARY INFORMATION

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City of Clearwater
Schedule of Accounts Receivable
Year Ended December 31, 2022

Fund	Source	Purpose	Amount
General Fund	Wright County	Clean-up settlement	\$ 5,783
General Fund	Midco	December Franchise Fee	937
General Fund	Minnesota Dept. of Finance	December Fines and Fees	407
General Fund	Clearwater Development Inc	Escrow Agreement	75
Fire Department	Wright County	Clean-up settlement	1,413
Parks and Recreation	Clearwater/Clear Lake Food Shelf	Lease agreement fees	1,000
Parks and Recreation	Wright County	Clean-up settlement	758
EDA	Wright County	Clean-up settlement	785
Local Option Sales Tax	Minnesota Revenue	November and December Sales Tax	26,992
GO Improvement Bonds of 2015	Wright County	Clean-up settlement	939
GO Improvement Bonds of 2019	Wright County	Clean-up settlement	508
GO Equipment Certificate 2020A	Wright County	Clean-up settlement	941
Street Capital	Wright County	Clean-up settlement	958
Public Works Capital	Wright County	Clean-up settlement	824
Water Fund	Utility Customers	Water utility receivable	13,543
Water Fund	Wright County	Clean-up settlement	599
Sewer Fund	Utility Customers	Sewer utility receivable	84,511
Sewer Fund	Clear Lake/Clearwater Sewer Authority	Admin and Treasurer Services	375
Sewer Fund	Wright County	Clean-up settlement	575
Refuse and Recycling Fund	Utility Customers	Refuse utility receivable	10,111
Refuse and Recycling Fund	Wright County	4th Qtr Payments - Recycle	591
Refuse and Recycling Fund	Wright County	Clean-up settlement	124
Storm Sewer Fund	Utility Customers	Storm sewer receivable	3,480
Storm Sewer Fund	Wright County	Clean-up settlement	13
Total			<u>\$ 156,242</u>

City of Clearwater
Schedule of Accounts Payable
Year Ended December 31, 2022

Fund	Vendor Name	Item and Purpose	Amount
General	Beuning, LLC	Rent	\$ 1,266
General	Bolton & Menk, Inc.	Professional services	1,840
General	Cintas	Operating supplies	317
General	City of Clearwater	Library Water Bill	142
General	Clearwater Parts City Auto	Operating supplies	20
General	Coils Flags and Flagpoles	2 US Flags	120
General	Department of Transportation	Operating supplies	2,236
General	Fidelity Security Life	Insurance premiums	63
General	Force America Distributing Llc	Repairs	231
General	Kennedy & Graven, Chartered	Professional services	966
General	Kris Engineering, Inc.	Operating supplies	1,918
General	Landform Professional Svc	Professional services	200
General	Marklowitz, Becky	Professional services	415
General	Menards - St. Cloud	Operating supplies	150
General	Metro West Inspection Svcs Inc	Permits	7,631
General	Patriot News MN	Professional services	476
General	Premium Quality Lighting	Repairs	887
General	Pro Tech Restoration	Refund	50
General	Quill Corporation	Operating supplies	250
General	Rons Pest Control Service	Professional services	57
General	Sharetech	Repairs	827
General	Ziegler	Repairs	475
General	Aflac	Insurance premiums	34
General	MN Dept of Labor & Industry	Q4 Surcharge	577
General	PSN	Fees	220
General	Verizon Wireless	Phone bill	77
General	Wright Hennepin Coop Electric	Utilities	404
General	Xcel Energy Outdoor Lighting	Utilities	1,732
General	Xcel Energy	Utilities	2,324
General	Wright Co Finance/Tax Service	Patrol Fines	905
General	Centracare Health	Drug Test	60
General	Premium Waters, Inc.	Operating supplies	11
General	Clearwater Travel Plaza	Fuel	246
General	Pearson Bros, Inc.	Professional services	2,366
General	Coordinated Business Systems	Copies	176
General	Central Mcgowan	Operating supplies	11
General	Wright Co Finance/Tax Service	2022 TNT Notices	232
Fire Department	Blaine Brothers	Repairs	1,063
Fire Department	Card Services (Coborns)	Fuel	452
Fire Department	Clearwater Parts City Auto	Operating supplies	63
Fire Department	Jim Repke	Operating supplies	80
Fire Department	Kirvida Fire, Inc.	Repairs	1,183
Fire Department	Marklowitz, Becky	Professional services	53
Fire Department	Quill Corporation	Expandable File Folders	51
Fire Department	Xcel Energy	Utilities	538

City of Clearwater
Schedule of Accounts Payable
Year Ended December 31, 2022

Fund	Vendor Name	Item and Purpose	Amount
Parks and Recreation	Betty Eiden	Reimbursement	\$ 100
Parks and Recreation	Carl Jansen	Reimbursement	100
Parks and Recreation	James Heaton	Reimbursement	100
Parks and Recreation	Karen Powell	Reimbursement	100
Parks and Recreation	Laura Pettis	Reimbursement	100
Parks and Recreation	M & M Express Sales & Service	Repairs	538
Parks and Recreation	Marklowitz, Becky	Professional services	403
Parks and Recreation	Menards - St. Cloud	Operating supplies	456
Parks and Recreation	Pam Mooney	Reimbursement	100
Parks and Recreation	Quill Corporation	Operating supplies	72
Parks and Recreation	Select Electric, Inc.	Repairs	2,286
Parks and Recreation	Teresa Steinhaus	Reimbursement	100
Parks and Recreation	Tri-County Lumber	Operating supplies	1,608
Parks and Recreation	Minnesota UI Fund	Q4 2022 Unemployment	1,410
Parks and Recreation	Wright Hennepin Coop Electric	Utilities	40
Parks and Recreation	Xcel Energy	Utilities	628
TIF 1-1 Mississippi Ridge	Minnesota Paving & Materials	Eldorado Park Paving	74,290
Local Option Sales Tax	Bolton & Menk, Inc.	Professional services	3,192
Local Option Sales Tax	Kennedy & Graven, Chartered	Professional services	2,109
Local Option Sales Tax	Landform Professional Svc	Professional services	1,838
Local Option Sales Tax	Northland Securities	Professional services	3,000
Water	Bolton & Menk, Inc.	Professional services	1,075
Water	Gopher State One Call	Locates	5
Water	Hawkins, Inc	Operating supplies	1,393
Water	Traut Wells, Inc	Professional services	60
Water	Minnesota Revenue	Sales tax	348
Water	PSN	Fees	83
Water	Xcel Energy	Utilities	1,443
Water	Clearwater Travel Plaza	Fuel	162
Water	Coordinated Business Systems	Copies	23
Sewer	Clear Lake/Clwter Sewer Authority	Sewer Flow/Surcharge	38,753
Sewer	Clearwater Rental Center	Repairs	135
Sewer	Gopher State One-Call	Locates	5
Sewer	Nelson Sanitation & Rental Inc	Lift Station	185
Sewer	PSN	Fees	469
Sewer	Wright Hennepin Coop Electric	Utilities	99
Sewer	Xcel Energy	Utilities	427
Sewer	Clearwater Travel Plaza	Fuel	168
Sewer	Coordinated Business Systems	Copies	23
Refuse	Minnesota Revenue	Sales Tax	681
Refuse	Republic Services #891	Residential Refuse Dec 22	8,286
Refuse	Coordinated Business Systems	Copies	12
Total			\$ 179,846

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

Basic Financial Statements

December 31, 2022



**City of Clearwater
Water and Sewer Enterprise Funds
Table of Contents**

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**City of Clearwater
Water and Sewer Enterprise Funds
Elected Officials and Administration
December 31, 2022**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2024
Kris Crandall	Council Member	December 31, 2022
Wayne Kruchten	Council Member	December 31, 2022
Michael Lenz	Council Member	December 31, 2022
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, 2022, and the related notes to basic 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, 2022, 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, 2022, 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.

Emphasis of Matter – Implementation of GASB 87

The City has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 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.

Required Supplementary Information (Continued)

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 7, 2023, 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 7, 2023.

BergankDV, Ltd.

Minneapolis, Minnesota
March 7, 2023

BASIC FINANCIAL STATEMENTS

City of Clearwater
Water and Sewer Enterprise Funds
Statement of Net Position
December 31, 2022

	Water (600)	Sewer (601)	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 948,748	\$ 773,545	\$ 1,722,293
Special assessment receivable			
Delinquent	855	2,789	3,644
Deferred	4,278	13,960	18,238
Accounts receivable	13,543	84,511	98,054
Due from other governments	599	950	1,549
Prepaid expenses	5,604	4,002	9,606
Total current assets	<u>973,627</u>	<u>879,757</u>	<u>1,853,384</u>
Noncurrent assets			
Equity interest in joint venture	-	6,939,588	6,939,588
Capital assets being depreciated			
Sewer and water systems	4,547,090	3,932,012	8,479,102
Equipment	203,789	37,949	241,738
Total capital assets	4,750,879	3,969,961	8,720,840
Less accumulated depreciation	(1,560,870)	(1,823,382)	(3,384,252)
Net capital assets	<u>3,190,009</u>	<u>2,146,579</u>	<u>5,336,588</u>
Total noncurrent assets	<u>3,190,009</u>	<u>9,086,167</u>	<u>12,276,176</u>
Total assets	<u>4,163,636</u>	<u>9,965,924</u>	<u>14,129,560</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension activity	<u>23,814</u>	<u>30,040</u>	<u>53,854</u>
Total assets and deferred outflows of resources	<u>\$ 4,187,450</u>	<u>\$ 9,995,964</u>	<u>\$ 14,183,414</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 3,171	\$ 1,511	\$ 4,682
Contracts payable	1,075	-	1,075
Salaries and benefits payable	3,138	3,878	7,016
Due to other governments	244	38,753	38,997
Interest payable	4,397	14,987	19,384
Amount due within one year	74,614	455,677	530,291
Total current liabilities	<u>86,639</u>	<u>514,806</u>	<u>601,445</u>
Noncurrent liabilities			
Compensated absences	5,439	6,726	12,165
Note from direct borrowing	807,937	2,355,000	3,162,937
Bonds payable	535,000	-	535,000
Premium on bonds payable	16,774	-	16,774
Net pension liability	72,441	91,380	163,821
Less amount due within one year	(74,614)	(455,677)	(530,291)
Total noncurrent liabilities	<u>1,362,977</u>	<u>1,997,429</u>	<u>3,360,406</u>
Total liabilities	<u>1,449,616</u>	<u>2,512,235</u>	<u>3,961,851</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension activity	<u>1,037</u>	<u>1,307</u>	<u>2,344</u>
Net Position			
Net investment in capital assets	1,830,298	6,731,167	8,561,465
Unrestricted	906,499	751,255	1,657,754
Total net position	<u>2,736,797</u>	<u>7,482,422</u>	<u>10,219,219</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 4,187,450</u>	<u>\$ 9,995,964</u>	<u>\$ 14,183,414</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, 2022

	Water (600)	Sewer (601)	Total
Operating revenues			
Charges for services	\$ 205,564	\$ 1,009,231	\$ 1,214,795
Permits, hook-up fees, and penalties	-	11,128	11,128
Miscellaneous operating revenues	3,730	15,787	19,517
Total operating revenues	<u>209,294</u>	<u>1,036,146</u>	<u>1,245,440</u>
Operating expenses			
Wages and salaries	110,770	138,227	248,997
Contracted services	709	24	733
Materials and supplies	19,455	4,070	23,525
Repairs and maintenance	9,704	7,081	16,785
Professional services	3,973	-	3,973
Sewer authority charges	-	433,462	433,462
Utilities	19,115	5,658	24,773
Depreciation	97,959	82,677	180,636
Miscellaneous	17,042	16,277	33,319
Total operating expenses	<u>278,727</u>	<u>687,476</u>	<u>966,203</u>
Operating income (loss)	(69,433)	348,670	279,237
Nonoperating revenues (expenses)			
Investment income	(9,254)	(7,545)	(16,799)
Property taxes	52,326	-	52,326
Intergovernmental	10,194	396	10,590
Trunk and access charges	20,000	28,000	48,000
Interest expense	(23,926)	(44,716)	(68,642)
Other income	12,441	-	12,441
Total nonoperating revenues (expenses)	<u>61,781</u>	<u>(23,865)</u>	<u>37,916</u>
Income (loss) before change in equity interest, contributions and transfers	(7,652)	324,805	317,153
Change in equity interest	-	(252,516)	(252,516)
Transfers in	<u>138,687</u>	<u>4,000</u>	<u>142,687</u>
Change in net position	131,035	76,289	207,324
Net position			
Beginning of year	<u>2,605,762</u>	<u>7,406,133</u>	<u>10,011,895</u>
End of year	<u>\$ 2,736,797</u>	<u>\$ 7,482,422</u>	<u>\$ 10,219,219</u>

See notes to basic financial statements.

City of Clearwater
Water and Sewer Enterprise Funds
Statement of Cash Flows
Year Ended December 31, 2022

	Water (600)	Sewer (601)	Total
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 210,384	\$ 1,042,700	\$ 1,253,084
Payments to suppliers	(70,557)	(452,483)	(523,040)
Payments to employees	(104,749)	(128,356)	(233,105)
Net cash flows - operating activities	35,078	461,861	496,939
Cash Flows - Noncapital Financing Activities			
Intergovernmental	45,359	-	45,359
Property taxes	51,824	-	51,824
Miscellaneous revenue	32,441	28,000	60,441
Transfer from other funds	138,687	4,000	142,687
Net cash flows - noncapital financing activities	268,311	32,000	300,311
Cash Flows - Capital and Related Financing Activities			
Principal paid on debt	(60,021)	(448,000)	(508,021)
Interest paid on debt	(24,126)	(47,567)	(71,693)
Bond proceeds	138,324	-	138,324
Acquisition of capital assets	(295,079)	(26,247)	(321,326)
Net cash flows - capital and related financing activities	(240,902)	(521,814)	(762,716)
Net change in cash and cash equivalents	53,233	(35,498)	17,735
Cash and Cash Equivalents			
Beginning of year	895,515	809,043	1,704,558
End of year	\$ 948,748	\$ 773,545	\$ 1,722,293
Reconciliation of Operating Income to Net Cash Flows - Operating Activities (Loss)			
Operating income (loss)	\$ (69,433)	\$ 348,670	\$ 279,237
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Depreciation expense	97,959	82,677	180,636
Accounts receivable	3,562	13,295	16,857
Due from other governments	-	1,008	1,008
Special assessment receivable	(2,472)	(7,749)	(10,221)
Prepaid items	(2,684)	(1,302)	(3,986)
Accounts payable	17	438	455
Due to other governmental units	(124)	12,544	12,420
Salaries payable	7,812	11,699	19,511
Compensated absences payable	441	581	1,022
Total adjustments	104,511	113,191	217,702
Net cash flows - operating activities	\$ 35,078	\$ 461,861	\$ 496,939

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, 2022, was \$6,939,588.

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 \$180,636 for the year ended December 31, 2022.

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, 2022, 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	\$ 2,178,381
Savings	1,675,780
Certificates of deposits	<u>906,876</u>
Total deposits	<u><u>\$ 4,761,037</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, 2022, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI Y	\$ 20,688	N/A	N/A
US Treasury Note 8UN8	99,729	02/15/23	Aaa
US Treasury Note 8V80	48,681	01/31/24	Aaa
US Treasury Note CBM2	142,518	02/15/24	Aaa
US Treasury Note 8B66	48,918	02/15/24	Aaa
US Treasury Note 8ZC7	140,022	02/28/25	Aaa
US Treasury Note 8ZF0	45,922	03/31/25	Aaa
US Treasury Note 84R8	48,338	05/31/25	Aaa
US Treasury Note 86F2	47,490	02/28/26	Aaa
US Treasury Note 87B0	46,388	06/30/26	Aaa
US Treasury Note 82A7	45,574	08/15/26	Aaa
US Treasury Note 8YQ7	45,638	10/31/26	Aaa
US Treasury Note 8U24	46,228	11/15/26	Aaa
US Treasury Note 8V98	46,529	02/15/27	Aaa
Ishares Treasury Bond	172,404	N/A	N/A
4M Fund (General)	405,276	N/A	N/A
4M Fund (2019 SEA Project [Municipal Advisory Account])	196,459	N/A	N/A
Total	\$ 1,646,802		

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, 2022, 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)

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, 2022:

- \$1,045,067 of investments are valued using quoted market prices (Level 1 inputs)

C. Balances

As of December 31, 2022, the City had deposits and investments as follows:

Deposits (Note 2.A.)	\$ 4,761,037
Petty cash	150
Investments (Note 2.B.)	<u>1,646,802</u>
Total deposits and investments	<u><u>\$ 6,407,989</u></u>

Deposits and investments are presented in the December 31, 2022, basic financial statements as follows:

Statement of balances arising from cash

Transactions - governmental funds

Cash and investments	\$ 4,308,468
Cash and investments - component unit	264,168

Statement of balances arising from cash

Transactions - proprietary funds

Cash and cash equivalents - Water Fund	948,748
Cash and cash equivalents - Sewer Fund	773,545
Cash and cash equivalents - Refuse and Recycling Fund	33,372
Cash and cash equivalents - Storm Sewer	<u>79,688</u>

Total deposits and investments	<u><u>\$ 6,407,989</u></u>
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City of Clearwater
Water and Sewer Enterprise Funds
Notes to Notes Basic Financial Statements

NOTE 3 – CAPITAL ASSETS

The following is a summary of the Water and Sewer Enterprise Funds' capital assets as of December 31, 2022:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets not being Depreciated				
Construction in Progress	\$ 825,183	\$ 226,765	\$ 1,051,948	\$ -
Capital assets being depreciated				
Water and sewer system	7,400,907	1,078,195	-	8,479,102
Equipment	205,845	35,893	-	241,738
Total capital assets being depreciated	<u>7,606,752</u>	<u>1,114,088</u>	<u>-</u>	<u>8,720,840</u>
Less accumulated depreciation for				
Water and sewer system	3,025,857	171,538	-	3,197,395
Equipment	177,759	9,098	-	186,857
Total accumulated depreciation	<u>3,203,616</u>	<u>180,636</u>	<u>-</u>	<u>3,384,252</u>
Total capital assets being depreciated, net	<u>4,403,136</u>	<u>933,452</u>	<u>1,051,948</u>	<u>5,336,588</u>
Utility enterprise funds capital position, net	<u>\$ 5,228,319</u>	<u>\$ 1,160,217</u>	<u>\$ 1,051,948</u>	<u>\$ 5,336,588</u>

Depreciation expense of \$97,959 and \$82,677 was charged to the Water and Sewer fund respectively for the year ended December 31, 2022.

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.

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

NOTE 4 – LONG-TERM DEBT

B. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
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	\$ 2,355,000	\$ 455,000
2021 G.O. PFA water revenue note	06/24/21	1.00%	1,114,021 *	08/20/27	807,937	38,938
Bonds payable						
G.O. Bonds						
2015 G.O. Improvement Bond	05/15/15	3.00%-3.25%	780,000	12/01/35	<u>535,000</u>	<u>35,000</u>
Total					<u>3,697,937</u>	<u>528,938</u>
Compensated absences					<u>12,165</u>	<u>1,353</u>
Total proprietary funds					<u>\$ 3,710,102</u>	<u>\$ 530,291</u>

*The G.O. PFA Water Revenue Note project is completed, resulting in the City only drawing \$832,958 of the total award of the \$1,114,021.

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, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Proprietary funds				
Note from direct borrowing				
G.O. PFA sewer revenue note	\$ 2,803,000	\$ -	\$ 448,000	\$ 2,355,000
G.O. PFA water revenue note	694,634	138,324	25,021	807,937
Bonds payable				
G.O. improvement Bonds	570,000	-	35,000	535,000
Compensated absences	<u>11,143</u>	<u>12,151</u>	<u>11,129</u>	<u>12,165</u>
Total proprietary funds	<u>\$ 3,384,143</u>	<u>\$ 150,475</u>	<u>\$ 494,129</u>	<u>\$ 3,710,102</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
2023	\$ 493,937	\$ 48,044	\$ 541,981	\$ 35,000	\$ 16,413	\$ 51,413
2024	502,000	39,933	541,933	35,000	15,363	50,363
2025	511,000	31,686	542,686	35,000	14,313	49,313
2026	519,000	23,293	542,293	35,000	13,263	48,263
2027	527,000	14,764	541,764	40,000	12,213	52,213
2028-2032	208,000	26,370	234,370	210,000	42,913	252,913
2033-2037	219,000	15,770	234,770	145,000	9,588	154,588
2038-2041	183,000	4,590	187,590	-	-	-
Total	<u>\$ 3,162,937</u>	<u>\$ 204,450</u>	<u>\$ 3,367,387</u>	<u>\$ 535,000</u>	<u>\$ 124,066</u>	<u>\$ 659,066</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 2022 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2022, 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 2022 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, 2022, were \$11,963. 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, 2022, the City reported a liability of \$163,821 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 2022. 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 \$4,749.

The net pension liability was measured as of June 30, 2022, 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The Water and Sewer Enterprise Funds' proportionate share was 0.00207%, at the end of the measurement period and 0.00197% for the beginning of the period.

Funds' proportionate share of the net pension liability	\$ 163,821
State of Minnesota's proportionate share of the net pension liability associated with the Funds'	4,749
Total	\$ 168,570

**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, 2022, 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, 2022, 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	\$ 1,369	\$ 1,713
Changes in actuarial assumptions	36,434	631
Net collective difference between projected and actual investment earnings	3,609	-
Changes in proportion	6,461	-
Contributions paid to PERA subsequent to the measurement date	5,981	-
Total	\$ 53,854	\$ 2,344

**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 \$5,981 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, 2023. 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
2023	\$ 18,803
2024	16,364
2025	(4,454)
2026	14,815
Total	\$ 45,528

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 stocks	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
Total	100.0 %	

**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, 2022, 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 27 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 2022:

General Employees Fund

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions

- There have been no changes since the previous valuation.

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 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 position of the General Employees Fund was 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.

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

NOTE 6 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

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%)
City's proportionate share of the General Employees Fund net pension liability	\$ 258,765	\$ 163,821	\$ 85,954

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.

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%
2022	0.00207%	163,821	4,749	168,570	153,489	106.73%	76.67%

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%
2022	11,963	11,963	-	159,507	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

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from scale MP-2020 to scale MP-2021.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

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.

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

General Employees Fund (Continued)

2020 Changes (Continued)

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.

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.

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

General Employees Fund (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- 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.

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 and
Minnesota Legal Compliance**

December 31, 2022



City of Clearwater
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**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, 2022, 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 7, 2023. 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.

Report on Internal Control over Financial Reporting

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

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

Report on 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 deficiency in internal control, described in the accompanying Schedule of Findings as audit finding 2022-001 that we consider to be a material weakness.

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 Responses on Legal Compliance and Internal Control. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 7, 2023

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, 2022, and the related notes to financial statements, and have issued our report thereon dated March 7, 2023.

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 7, 2023

City of Clearwater
Schedule of Findings and Responses on
Legal Compliance and Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 2022-001 – 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 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 print 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.

City's Response:

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.

City of Clearwater
Schedule of Findings and Responses on
Legal Compliance and Internal Control

PRIOR YEAR INTERNAL CONTROL FINDING:

Audit Finding 2021-002 – 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 enterprise fund revenues.

City's Corrective Action Taken:

The City did not have any material audit adjustments for the year ending December 31, 2022.