

**City of Clearwater
Wright County, Minnesota**

Communications Letter

December 31, 2023

**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 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, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the City's regulatory financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

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

The material 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 weakness identified in our audit has not been subjected to audit procedures applied in the audit of the regulatory financial statements, and accordingly, we express no opinion on it.

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 25, 2024, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the Members of the City Council and management and others within the City and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
March 25, 2024

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/Consultant receives and posts receipts. The Accountant/UB Clerk can prepare 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 City Administrator processes invoices and prints checks for payments. The City Administrator 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 UB Clerk, or Deputy Clerk in her absence, posts utility billing information into the general ledger, enters payments from the counter, and maintains customer accounts and rates and the bill register.
- ◆ Controls over the Journal Entry Process: The City Administrator can post manual journal entries without any formal review.

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

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 and basic 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, 2023. 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 regulatory and 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 regulatory and 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 regulatory and basic financial statements are free of material misstatement. An audit of the regulatory and 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 regulatory financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the regulatory financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the regulatory 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 regulatory and 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 regulatory and 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

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 generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- ◆ 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.
- ◆ Significant estimates - Depreciation, Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions, Lease Liability and Right-to-Use Lease Assets, Lease Receivable and Deferred Outflows of Resources
 - ◇ Accounting estimate are an integral part of the basic financial statements prepared by management and are based on management's current judgements.

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 regulatory and basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023.

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.

**City of Clearwater
Required Communication**

Qualitative Aspects of the City's Significant Accounting Practices (Cont.)

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.

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.

Lease Liability and Right-to-Use Lease Assets - These balances are based on estimates and judgements determined by the City related to the discount rate, lease term, and lease payments.

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 regulatory and basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The regulatory and 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 regulatory and 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 accounts receivable 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

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 regulatory financial statements or to the regulatory financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the regulatory and basic financial statements.

Modification of the Auditor's Report

We have made the following modifications to our 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.

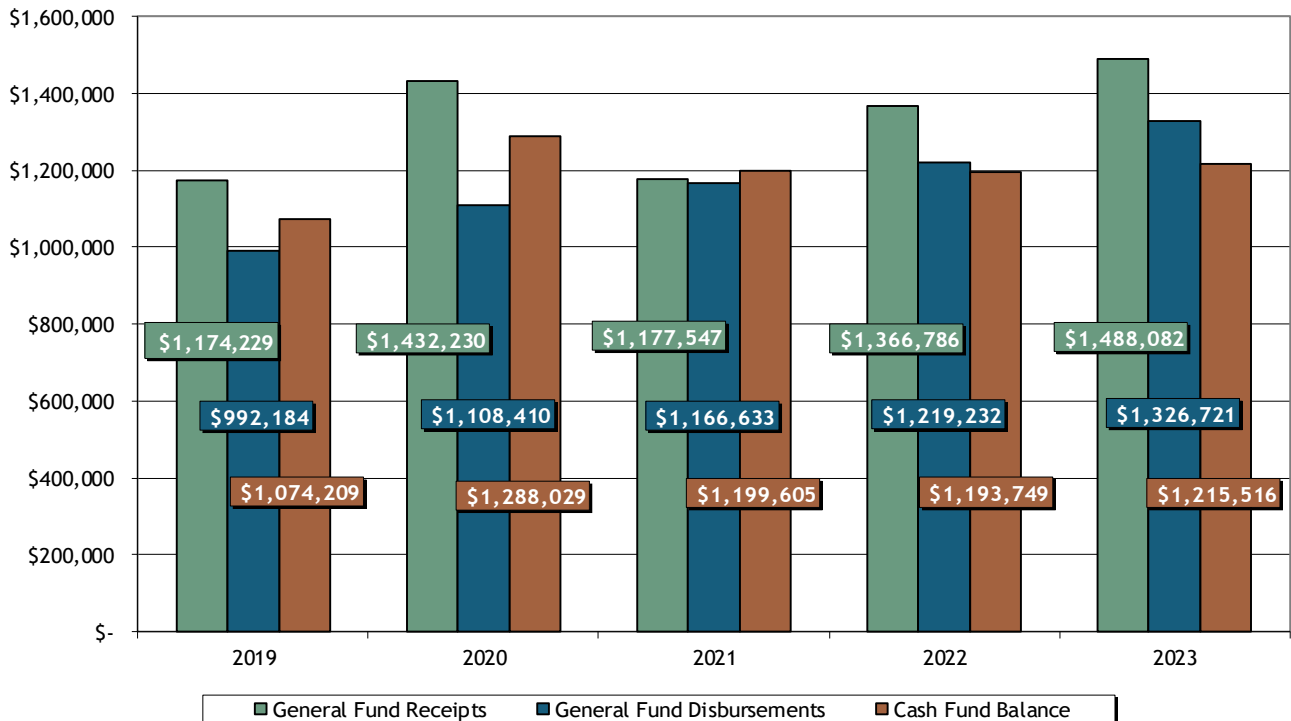
General Fund Receipts and Disbursements

The graph below shows General Fund operations for the past five years. As illustrated, receipts in the General Fund increased \$121,296, or 8.9%, from 2022. Taxes and assessments increased \$37,263 from 2022, primarily as a result of an increase in taxes levied. Licenses and permits increased \$67,584, or 68.4% from 2022 due to an increase in building activity in 2023. Charges for services increased \$51,073, or 85.2% primarily due to an increase in overall permits issued for 2023.

Total General Fund disbursements increased \$107,489, or 8.8%, from 2022. The most significant increase occurred in General Government, which increased \$130,624. This increase was primarily due to a purchase of property in 2023 and increase in staff salary.

In 2023, the City had a net change in cash fund balance of \$21,767, which increased the total to \$1,215,516. This cash fund balance represents over 12 months of 2024 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.

General Fund Operating Analysis

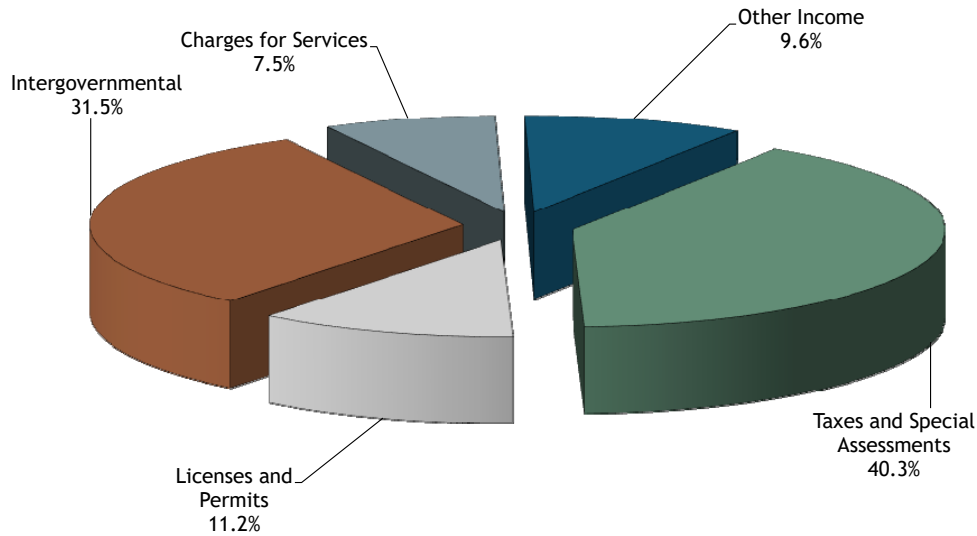


City of Clearwater Financial Analysis

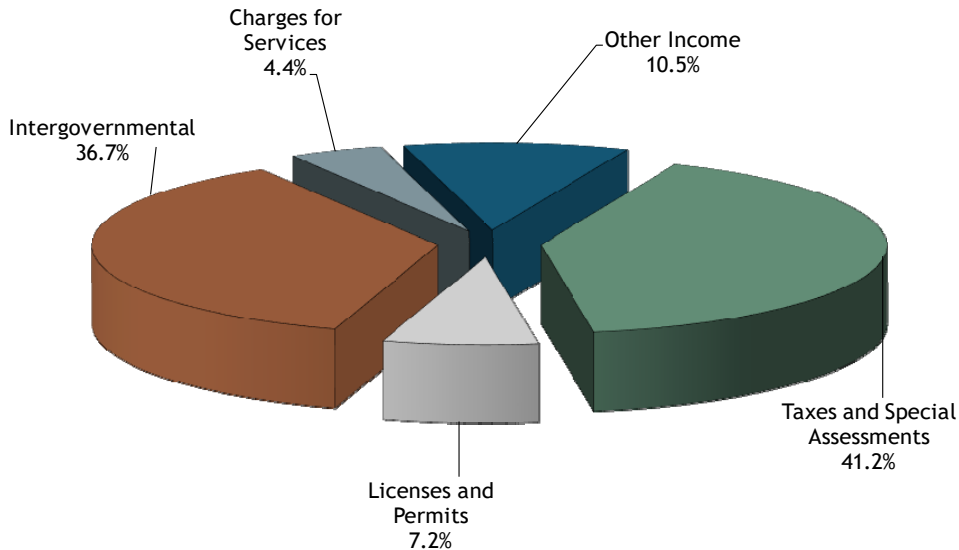
General Fund Receipts and Disbursements (Continued)

The graphs below display the allocation of General Fund receipts by source for years 2023 and 2022. The largest source of the City's receipts was the general property taxes and special assessments at 40.3%. The second largest source of City receipts was in the intergovernmental category, which consists of LGA, state police aid, public safety aid, and Public Employees' Retirement Association (PERA) Aid (31.5%). 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.

**2023 Receipts Components
General Fund**



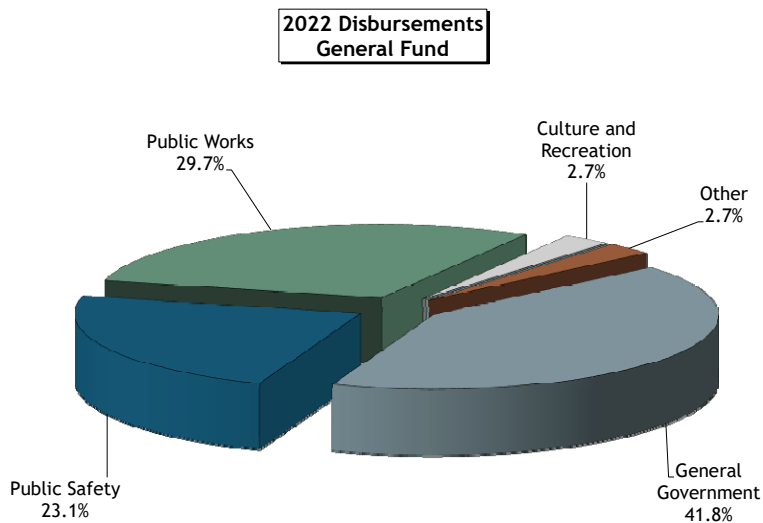
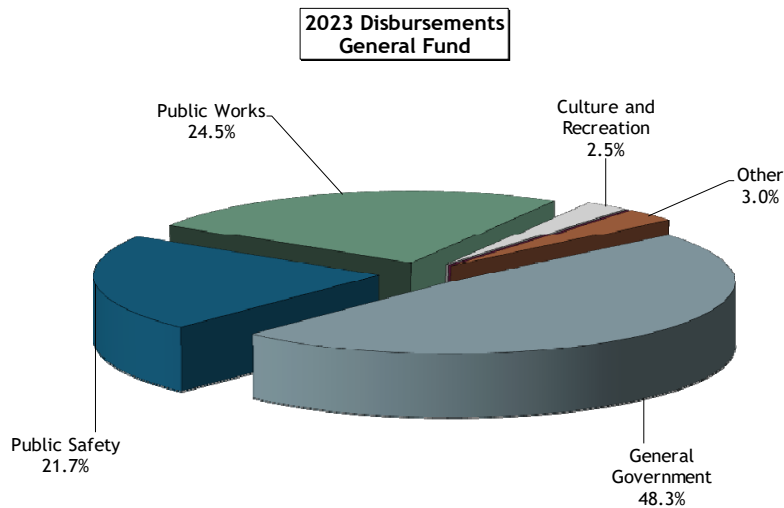
**2022 Receipts Components
General Fund**



City of Clearwater Financial Analysis

General Fund Receipts and Disbursements (Continued)

The graphs below illustrate the General Fund disbursements by function for years 2023 and 2022. General government disbursements accounted for the largest portion of the General Fund disbursements at 48.3%. 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 2023 consisting of disbursements for road construction and maintenance (24.5%). Public safety disbursements at 21.7%, 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 (2.5%). Other disbursements consist primarily of insurance, which is not specific to one City function (3.0%). Disbursements by function varied slightly from 2022 to 2023. The largest change was in general government increasing to 48.3% in 2023 compared to 41.8% in 2022, which as mentioned above, was primarily due to a purchase of property in 2023 and increase in staff salary.



**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	\$ 592,900	\$ 599,960	\$ 7,060
Licenses and permits	75,500	166,370	90,870
Intergovernmental	383,903	468,351	84,448
Charges for services	56,790	111,047	54,257
Other income	5,007	142,354	137,347
Total receipts	1,114,100	1,488,082	373,982
Disbursements			
General government	447,530	640,692	193,162
Public safety	294,610	288,382	(6,228)
Public works	323,450	325,150	1,700
Culture and recreation	32,100	33,169	1,069
Other	39,800	39,328	(472)
Total disbursements	1,137,490	1,326,721	189,231
Excess of receipts over (under) disbursements	(23,390)	161,361	184,751
Other Financing Sources (Uses)			
Proceeds from sale of capital asset	-	275	275
Transfers out	-	(139,869)	(139,869)
Total other financing sources (uses)	-	(139,594)	(139,594)
Net change in cash fund balances	\$ (23,390)	\$ 21,767	\$ 45,157

The General Fund actual receipts exceeded the City's budgeted amount by \$373,982. The primary area over budget was other income by \$137,347 due to Kwik Trip and Ash Street Apartments escrow collections in 2023. Licenses and permit fees were over budget \$90,870 due to more building activity than planned and conservative budgeting. Intergovernmental was over budget by \$84,448 due to the City not budgeting for public safety aid received in 2023. Charges for services was over budget due to conservative budgeting.

Total actual disbursements were over budget by \$189,162. General government was primarily over due to an increase in outside consultant costs due to staff departures, legal fees, and purchase of property not budgeted for.

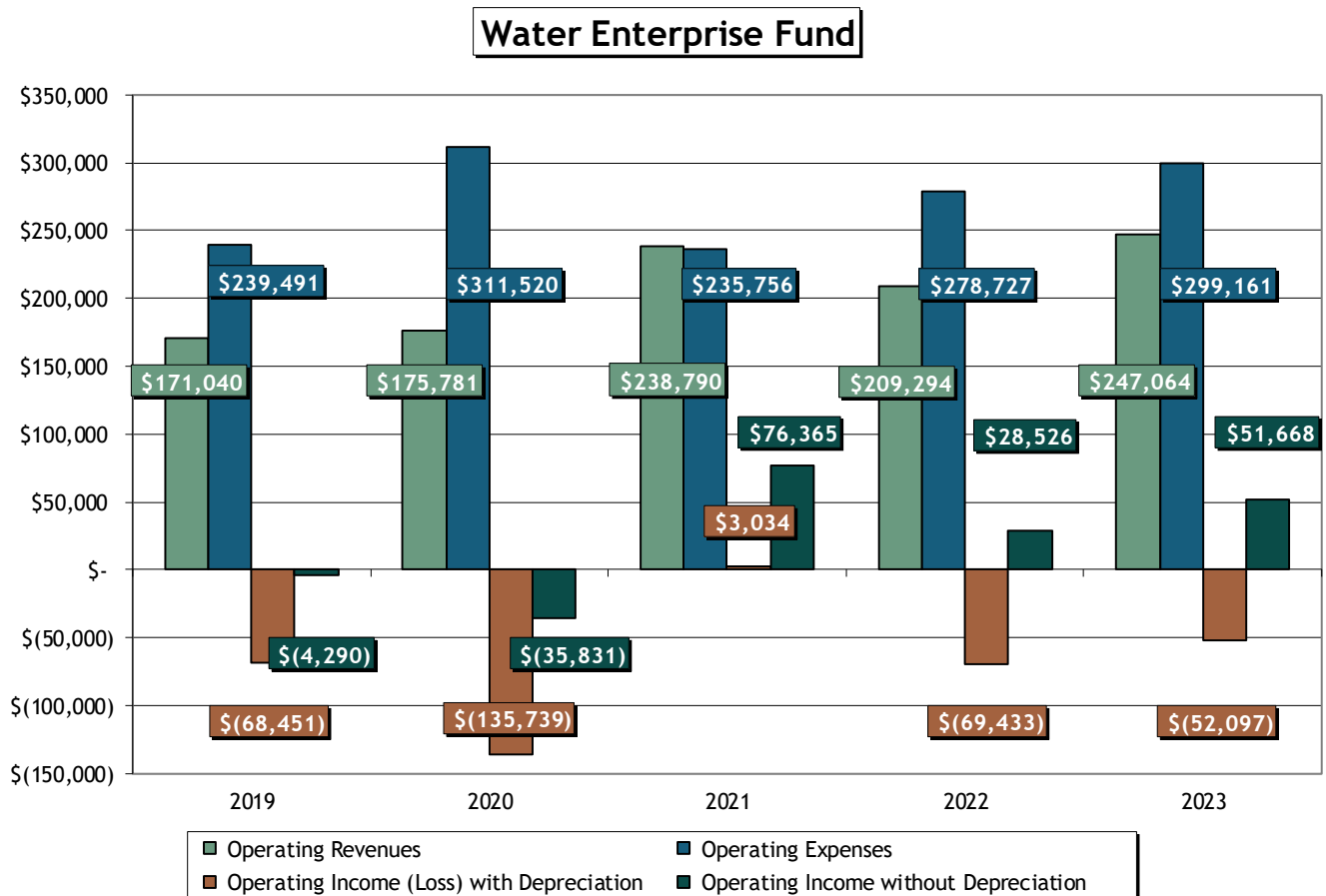
City of Clearwater Financial Analysis

Water Enterprise Fund

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

Water Enterprise Fund operating revenues increased \$37,770 from the prior year. This increase was due to an increase in new construction using the water utilities. Operating expenses increased by \$20,434, or 7.3% from 2022 largely due to increased personal services costs. This resulted in an operating loss of \$52,097, including depreciation expense of \$103,765. The fund nonoperating revenues and expenses resulted in an increase in net position of \$162,880.

The unrestricted net position balance increased to \$1,047,272 at December 31, 2023, compared to \$906,499 at December 31, 2022. The total amount of debt outstanding in the Water Fund at December 31, 2023, was \$1,269,000. Principal and interest due in 2023, totaled \$98,430.



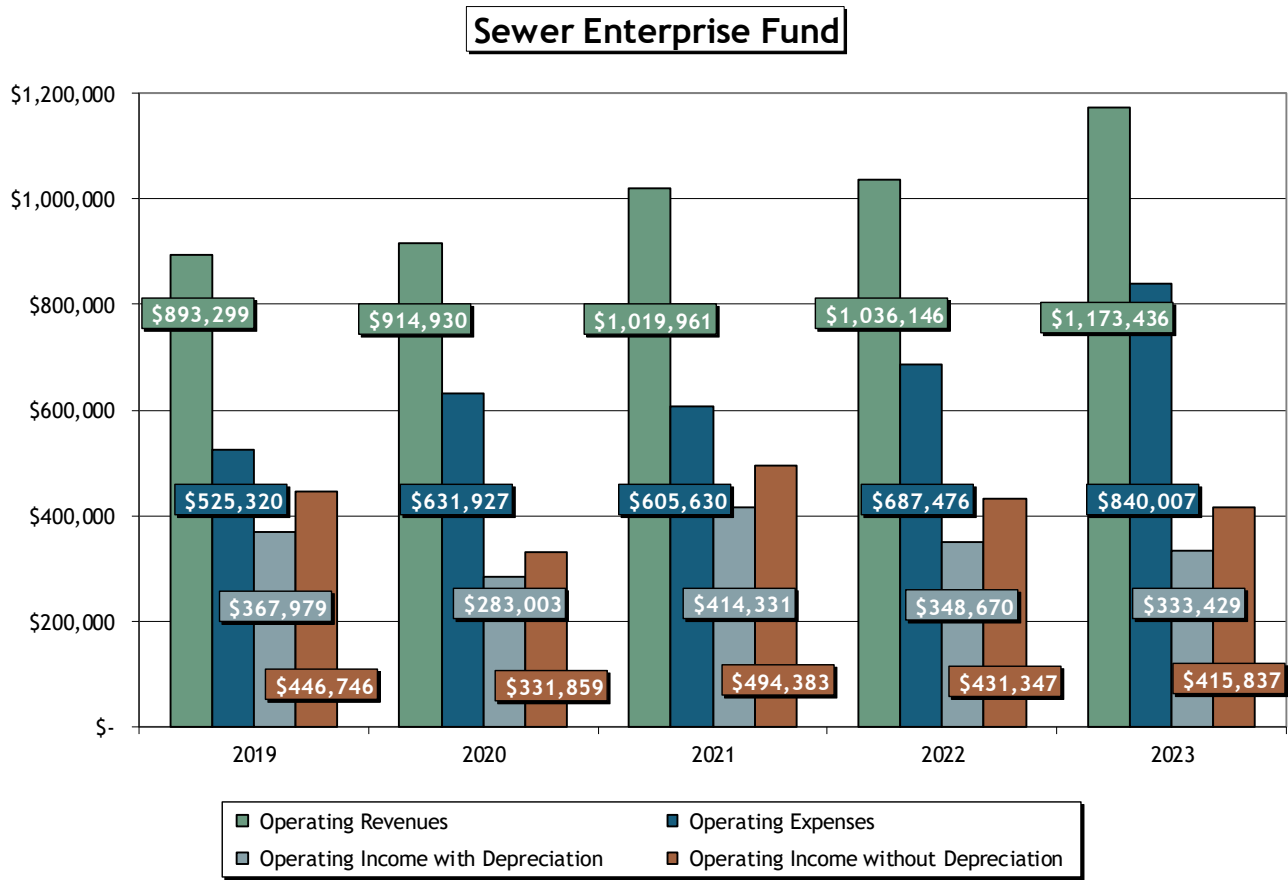
City of Clearwater Financial Analysis

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 2023.

Sewer Enterprise Fund operating revenues increased by \$137,290 or 13.3% in 2023, due to an increase in rates, new construction, and \$10 surcharge on all accounts for a full year. Expenses increased \$152,531 or 22.2%, 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, as well as increased personal services costs. The fund had an operating income of \$333,429, including depreciation expense of \$82,408. This is a decrease of \$15,510 from the prior year.

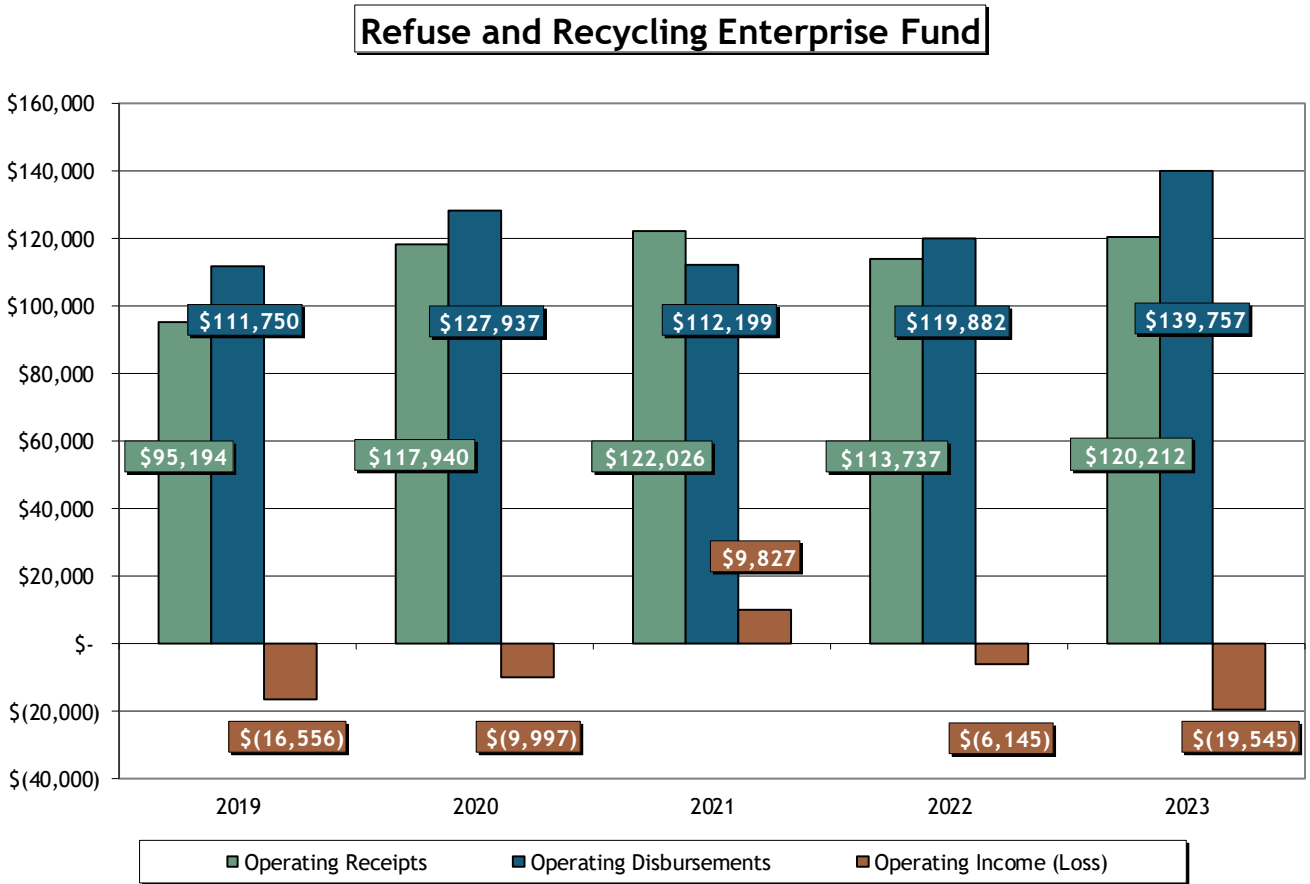
The cash and cash equivalents balance of the Sewer Enterprise Fund increased from the prior year by \$122,773. The cash balance of the Sewer Fund totaled \$896,318 at December 31, 2023. Cash and cash equivalents have increased each year over the five years presented besides in the prior year, due to expenditures increasing at a higher rate than revenue in 2022, increasing from a balance of \$685,481 in 2019, to \$896,318 in 2023. The total amount of debt outstanding in the Sewer Fund at December 31, 2023, was \$1,900,000. Principal and interest due in 2022, totaled \$494,964.



City of Clearwater Financial Analysis

Refuse and Recycling Enterprise Fund

Operating receipts and disbursements increased in 2023. Operating receipts increased \$6,475, or 5.7% and operating disbursements increased \$19,875, or 16.6%. The operating loss for 2023, was \$19,545. 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 2023, the non-operating receipts did not offset the operating loss, and the fund had a decrease in cash fund balance of \$7,321. Cash fund balance was \$26,051 at December 31, 2023, due to operations of the year.



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:

- ◆ **Implementation Guide No. 2021-1 - Amending Capitalization Requirements**
GASB has issued Implementation Guide No. 2021-1, amending previously issued guidance regarding capitalization requirements for capital assets that are significant in the aggregate but below the government's capitalization threshold individually.
- ◆ **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 updates. 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.

Implementation Guide No. 2021-1 - Amending Capitalization Requirements

Implementation Guide No. 2021-1, amended previously issued guidance contained in Implementation Guide No. 2015-1 regarding capitalization requirements for capital assets that are significant in the aggregate.

Original guidance stated that it may be appropriate for a government to establish a capitalization policy that would require capitalization for certain types of assets with individual acquisition costs that are less than the threshold for an individual asset.

Amended guidance states that a government should capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers and classroom furniture are common examples of asset types that could be significant collectively. The amended guidance clarifies that if 100 computers costing \$1,500 each totaling a \$150,000 aggregate amount is significant, the government should capitalize the computers.

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

City of Clearwater Emerging Issues

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.

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.

City of Clearwater Emerging Issues

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.

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, 2023

**City of Clearwater
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**City of Clearwater
Elected Officials and Administration
December 31, 2023**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2024
Travis Winkelman	Council Member	December 31, 2026
Santos Vazquez	Council Member	December 31, 2024
James Schwinghammer	Council Member	December 31, 2026
Lindsey Luhmann	Council Member	December 31, 2024
<u>Administration</u>		
Annita Smythe	City Administrator	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 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, 2023, 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, 2023.

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, 2023, 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, 2023, in conformity with the regulatory basis of accounting discussed in Note 1.

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America section of our report, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Clearwater, Minnesota, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended.

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 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.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 1 of the regulatory financial statements, the regulatory 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 regulatory 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.

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 twelve months 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.

Auditor’s Responsibilities for the Audit of the Financial Statements (Continued)

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 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 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 25, 2024, 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.

St. Cloud, Minnesota
March 25, 2024

REGULATORY FINANCIAL STATEMENTS

City of Clearwater
Statement of Balances Arising from Cash Transactions -
Governmental Funds and Component Unit
December 31, 2023

	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	\$ 1,215,516	\$ 230,442	\$ 2,045,493	\$ 644,681
Cash Fund Balances				
Restricted	\$ 126,395	\$ 230,442	\$ 2,045,493	644,681
Assigned	-	-	-	-
Unassigned	1,089,121	-	-	-
Total cash fund balances	\$ 1,215,516	\$ 230,442	\$ 2,045,493	\$ 644,681

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
<u>\$ 1,005,830</u>	<u>\$ 5,141,962</u>	<u>\$ 299,887</u>
\$ 697,386	\$ 3,744,397	\$ 299,887
308,444	308,444	-
-	1,089,121	-
<u>\$ 1,005,830</u>	<u>\$ 5,141,962</u>	<u>\$ 299,887</u>

City of Clearwater
Statement of Cash Receipts, Disbursements, and
Changes in Cash Fund Balances -
Governmental Funds and Component Unit
Year Ended December 31, 2023

	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	\$ 585,879	\$ 144,601	\$ -	\$ 110,221
Cable franchise taxes	11,308	-	-	-
Tax increments	-	-	-	-
Miscellaneous taxes	-	-	383,194	-
Special assessments	2,773	-	-	-
Licenses and permits	166,370	-	-	-
Intergovernmental	468,351	23,078	-	-
Charges for services	111,047	212,095	-	-
Fine and forfeitures	13,175	-	-	-
Miscellaneous				
Park dedication fees	-	-	-	-
Interest income	19,054	3,098	27,773	8,753
Refunds and reimbursements	8,795	190	18,368	-
Donations	4,000	8,650	-	-
Other	97,330	-	-	-
Total receipts	<u>1,488,082</u>	<u>391,712</u>	<u>429,335</u>	<u>118,974</u>
Disbursements				
Current				
General government	533,860	-	11,475	-
Public safety	288,382	160,684	-	-
Public works	325,150	-	-	-
Culture and recreation	33,169	-	-	-
Economic development	-	-	-	-
Miscellaneous	39,328	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital outlay				
General government	106,832	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	5,900
Culture and recreation	-	-	214,371	-
Economic development	-	-	-	-
Total disbursements	<u>1,326,721</u>	<u>160,684</u>	<u>225,846</u>	<u>5,900</u>
Excess of receipts over (under) disbursements	161,361	231,028	203,489	113,074
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	275	-	-	-
Transfers in	-	-	-	30,000
Transfers out	(139,869)	(143,730)	-	-
Total other financing sources (uses)	<u>(139,594)</u>	<u>(143,730)</u>	<u>-</u>	<u>30,000</u>
Net change in cash fund balances	21,767	87,298	203,489	143,074
Cash Fund Balances				
Beginning of year	<u>1,193,749</u>	<u>143,144</u>	<u>1,842,004</u>	<u>501,607</u>
End of year	<u>\$ 1,215,516</u>	<u>\$ 230,442</u>	<u>\$ 2,045,493</u>	<u>\$ 644,681</u>

See notes to regulatory financial statements.

Other Governmental Funds	Total Governmental Funds	EDA Component Unit
\$ 486,038	\$ 1,326,739	\$ 88,322
-	11,308	-
94,272	94,272	-
88	383,282	-
35,462	38,235	-
-	166,370	-
9,679	501,108	-
-	323,142	-
-	13,175	-
24,929	24,929	-
13,655	72,333	4,072
5,100	32,453	-
31,500	44,150	-
15,250	112,580	-
<u>715,973</u>	<u>3,144,076</u>	<u>92,394</u>
46,380	591,715	-
-	449,066	-
-	325,150	-
129,787	162,956	-
-	-	14,255
-	39,328	-
211,000	211,000	-
73,949	73,949	-
58,440	165,272	-
32,115	32,115	-
14,950	20,850	-
25,085	239,456	-
-	-	42,420
<u>591,706</u>	<u>2,310,857</u>	<u>56,675</u>
124,267	833,219	35,719
-	275	-
299,682	329,682	-
(46,083)	(329,682)	-
<u>253,599</u>	<u>275</u>	<u>-</u>
377,866	833,494	35,719
627,964	4,308,468	264,168
<u>\$ 1,005,830</u>	<u>\$ 5,141,962</u>	<u>\$ 299,887</u>

City of Clearwater
Statement of Balances Arising from Cash Transactions -
Proprietary Funds and Component Unit
December 31, 2023

	<u>Water (600)</u>	<u>Sewer (601)</u>	<u>Refuse and Recycling (603)</u>	<u>Storm Sewer (651)</u>
Assets				
Cash and cash equivalents	<u>\$ 1,084,028</u>	<u>\$ 896,318</u>	<u>\$ 26,051</u>	<u>\$ 25,710</u>
Total assets	<u><u>\$ 1,084,028</u></u>	<u><u>\$ 896,318</u></u>	<u><u>\$ 26,051</u></u>	<u><u>\$ 25,710</u></u>
 Net Cash Position				
Unrestricted	<u>\$ 1,084,028</u>	<u>\$ 896,318</u>	<u>\$ 26,051</u>	<u>\$ 25,710</u>
Total net cash position	<u><u>\$ 1,084,028</u></u>	<u><u>\$ 896,318</u></u>	<u><u>\$ 26,051</u></u>	<u><u>\$ 25,710</u></u>

<u>Total</u>	<u>Sewer Authority Component Unit</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>

City of Clearwater
Statement of Receipts, Disbursements, and
Changes in Net Cash Position -
Proprietary Funds and Component Unit
Year Ended December 31, 2023

	Water (600)	Sewer (601)	Refuse and Recycling (603)	Storm Sewer (651)
Operating receipts				
Charges for services	\$ 239,163	\$ 1,133,744	\$ 117,580	\$ 26,450
Connection fees, permits, and penalties	-	12,364	-	-
Misc. operating revenues	2,234	12,100	2,632	516
Total operating receipts	<u>241,397</u>	<u>1,158,208</u>	<u>120,212</u>	<u>26,966</u>
Operating disbursements				
Personal services	120,684	156,172	15,072	-
Contracted services	655	33	114,540	-
Supplies and meters	20,680	3,690	805	-
Professional services	1,398	1,314	789	-
Utilities	19,612	4,961	-	-
Repairs and maintenance	12,961	6,568	-	-
Sewer authority charges	-	558,900	-	-
Miscellaneous expenses	18,419	13,503	8,551	-
Total operating disbursements	<u>194,409</u>	<u>745,141</u>	<u>139,757</u>	<u>-</u>
Excess of operating receipts over (under) operating disbursements	46,988	413,067	(19,545)	26,966
Nonoperating receipts (disbursements)				
Interest and investment income	14,718	12,170	354	349
Property taxes	53,318	-	-	-
Intergovernmental	8,822	-	3,684	-
Refunds and reimbursements	10,108	-	-	-
Trunk and access charges	137,500	192,500	-	-
Other	13,804	-	8,186	-
Gain on disposal of capital assets	-	-	-	-
Interest expense	(24,492)	(39,964)	-	-
Total nonoperating receipts (disbursements)	<u>213,778</u>	<u>164,706</u>	<u>12,224</u>	<u>349</u>
Net receipts (disbursements) before capital outlay, debt transactions, transfers, and contributions	260,766	577,773	(7,321)	27,315
Capital outlay	(51,548)	-	-	(81,293)
Debt principal	(73,938)	(455,000)	-	-
Change in net cash position	135,280	122,773	(7,321)	(53,978)
Net cash position				
Beginning of year	<u>948,748</u>	<u>773,545</u>	<u>33,372</u>	<u>79,688</u>
End of year	<u>\$ 1,084,028</u>	<u>\$ 896,318</u>	<u>\$ 26,051</u>	<u>\$ 25,710</u>

See notes to regulatory financial statements.

Total	Authority Component Unit
\$ 1,516,937	\$ 682,322
12,364	-
17,482	2,768
<u>1,546,783</u>	<u>685,090</u>
291,928	183,995
115,228	-
25,175	109,420
3,501	91,422
24,573	95,231
19,529	-
558,900	-
40,473	2,063
<u>1,079,307</u>	<u>482,131</u>
467,476	202,959
27,591	1,385
53,318	-
12,506	-
10,108	-
330,000	-
21,990	-
-	6,091
<u>(64,456)</u>	<u>-</u>
<u>391,057</u>	<u>7,476</u>
858,533	210,435
(132,841)	(117,247)
<u>(528,938)</u>	<u>-</u>
196,754	93,188
<u>1,835,353</u>	<u>525,601</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>

City of Clearwater
Statement of Cash Flows - Cash Basis -
Proprietary Funds and Component Unit
Year Ended December 31, 2023

	<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	\$ 241,397	\$ 1,158,208	\$ 120,212	\$ 26,966
Payments to suppliers	(73,725)	(588,969)	(124,685)	-
Payments to employees	(120,684)	(156,172)	(15,072)	-
Other operating payments	-	-	-	-
Net cash flows - operating activities	<u>46,988</u>	<u>413,067</u>	<u>(19,545)</u>	<u>26,966</u>
Cash Flows - Noncapital				
Financing Activities				
Other revenue	161,412	192,500	8,186	-
Property taxes	53,318	-	-	-
Intergovernmental	8,822	-	3,684	-
Net cash flows - noncapital financing activities	<u>223,552</u>	<u>192,500</u>	<u>11,870</u>	<u>-</u>
Cash Flows - Capital and				
Related Financing Activities				
Capital Grants	-	-	-	-
Purchases of capital assets	(51,548)	-	-	(81,293)
Principal paid on capital debt	(73,938)	(455,000)	-	-
Interest paid on capital debt	(24,492)	(39,964)	-	-
Proceeds from disposal of capital assets	-	-	-	-
Net cash flows - capital and related financing activities	<u>(149,978)</u>	<u>(494,964)</u>	<u>-</u>	<u>(81,293)</u>
Cash Flows - Investing				
Activities				
Interest and dividends	14,718	12,170	354	349
Net change in cash and cash equivalents	135,280	122,773	(7,321)	(53,978)
Cash and Cash Equivalents				
Beginning of year	948,748	773,545	33,372	79,688
End of year	<u>\$ 1,084,028</u>	<u>\$ 896,318</u>	<u>\$ 26,051</u>	<u>\$ 25,710</u>

<u>Total</u>	<u>Authority Component Unit</u>
\$ 1,546,783	\$ 682,322
(787,379)	(311,466)
(291,928)	(183,935)
-	2,768
<u>467,476</u>	<u>189,689</u>
362,098	-
53,318	-
12,506	-
<u>427,922</u>	<u>-</u>
-	-
(132,841)	(103,977)
(528,938)	-
(64,456)	-
-	6,091
<u>(726,235)</u>	<u>(97,886)</u>
<u>27,591</u>	<u>1,385</u>
196,754	93,188
<u>1,835,353</u>	<u>525,601</u>
<u>\$ 2,032,107</u>	<u>\$ 618,789</u>

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NOTES TO REGULATORY FINANCIAL STATEMENTS

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, 2023.

	Appropriations	Disbursements
General Fund	\$ 1,137,490	\$ 1,326,721

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, 2023, 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	\$2,655,484
Savings	1,692,160
Certificates of deposits	1,817,020
Total deposits	\$6,164,664

B. Investments

As of December 31, 2023, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI X	\$ 42,896	N/A	N/A
US Treasury Note 8V80	49,875	01/31/24	Aaa
US Treasury Note CBM2	149,068	02/15/24	Aaa
US Treasury Note 8B66	49,842	02/15/24	Aaa
US Treasury Note 8ZC7	144,076	02/28/25	Aaa
US Treasury Note 8ZF0	47,541	03/31/25	Aaa
US Treasury Note 84R8	48,862	05/31/25	Aaa
US Treasury Note CFK2	49,264	09/15/25	Aaa
US Treasury Note 86F2	48,254	02/28/26	Aaa
US Treasury Note 86S4	48,053	04/30/26	Aaa
US Treasury Note 87B0	47,416	06/30/26	Aaa
US Treasury Note 82A7	46,797	08/15/26	Aaa
US Treasury Note 8YQ7	46,811	10/31/26	Aaa
US Treasury Note 8U24	47,270	11/15/26	Aaa
US Treasury Note 8V98	47,465	02/15/27	Aaa
Ishares Treasury Bond	173,502	N/A	N/A
4M Fund (General)	222,150	N/A	N/A
Total	\$ 1,309,142		

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

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk: This is the 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: This is 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, 2023:

- ◆ \$1,086,992 of investments are valued using quoted market prices (Level 1 inputs)

C. Balances

As of December 31, 2023, the City had deposits and investments as follows:

Deposits (Note 3.A.)	\$ 6,164,664
Petty cash	150
Investments (Note 3.B.)	1,309,142
Total deposits and investments	\$ 7,473,956

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, 2023, regulatory financial statements as follows:

Statement of balances arising from cash	
Transactions - governmental funds	
Cash and investments	\$ 5,141,962
Cash and investments - component unit	299,887
Statement of balances arising from cash	
Transactions - proprietary funds	
Cash and cash equivalents - Water Fund	1,084,028
Cash and cash equivalents - Sewer Fund	896,318
Cash and cash equivalents - Refuse and Recycling Fund	26,051
Cash and cash equivalents - Storm Sewer	<u>25,710</u>
Total deposits and investments	<u>\$ 7,473,956</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, 2023, the City has a lease receivable of \$13,769.

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

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within 1 Year</u>
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	\$ 1,160,000	\$ 85,000
2019 G.O. Improvement Bond	8/1/2019	3.00%	1,030,000	12/15/39	880,000	45,000
G.O. Equipment Certificates						
2020 G.O. Equipment Certificate	8/19/2020	0.95%-1.45%	790,000	12/15/29	537,000	87,000
Total					<u>2,577,000</u>	<u>217,000</u>
Compensated absences						
Total Governmental Funds					<u>18,310</u>	<u>13,505</u>
					<u>2,595,310</u>	<u>230,505</u>
Proprietary funds						
G.O. revenue bonds and loans						
2008 G.O. PFA Sewer Revenue Note	10/28/08	1.70%	7,700,085	08/20/27	1,900,000	463,000
2021 G.O. PFA Water Revenue Note	06/24/21	1.00%	1,114,021*	08/20/41	769,000	39,000
G.O. bonds						
2015 G.O. Improvement Bond	05/15/15	3.00%-3.25%	780,000	12/01/35	500,000	35,000
Total					<u>3,169,000</u>	<u>537,000</u>
Compensated absences						
Total Proprietary Funds					<u>12,331</u>	<u>9,045</u>
					<u>3,181,331</u>	<u>546,045</u>
Total all long-term liabilities					<u>\$ 5,776,641</u>	<u>\$ 776,550</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, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental funds				
Bonds payable				
G.O. improvement bonds	\$ 2,165,000	\$ -	\$ 125,000	\$ 2,040,000
Equipment certificates				
G.O. equipment certificates	623,000	-	86,000	537,000
Compensated absences	18,531	20,547	20,768	18,310
Total governmental activities	2,806,531	20,547	231,768	2,595,310
Proprietary funds				
Note from direct borrowing				
G.O. PFA sewer revenue note	2,355,000	-	455,000	1,900,000
G.O. PFA water revenue note	807,938	-	38,938	769,000
Bonds payable				
G.O. improvement bonds	535,000	-	35,000	500,000
Compensated absences	12,165	14,156	13,990	12,331
Total proprietary funds	3,710,103	14,156	542,928	3,181,331
Total long-term liabilities	<u>\$ 6,516,634</u>	<u>\$ 34,703</u>	<u>\$ 774,696</u>	<u>\$ 5,776,641</u>

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
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	145,000	45,925	190,925	40,000	11,013	51,013
2029-2033	770,000	162,575	932,575	215,000	36,613	251,613
2034-2038	520,000	49,088	569,088	100,000	4,875	104,875
2039	70,000	2,100	72,100	-	-	-
Total	<u>\$ 2,040,000</u>	<u>\$ 484,038</u>	<u>\$ 2,524,038</u>	<u>\$ 500,000</u>	<u>\$ 107,653</u>	<u>\$ 607,653</u>

**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
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	91,000	2,654	93,654	41,000	6,100	47,100
2029-2033	92,000	1,334	93,334	210,000	24,290	234,290
2034-2038	-	-	-	221,000	13,580	234,580
2039-2041	-	-	-	138,000	2,760	140,760
Total	\$ 537,000	\$ 26,172	\$ 563,172	\$ 2,669,000	\$ 156,406	\$ 2,825,406

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	\$ -	\$ -	\$ -	\$ -	\$ 281,176	\$ 281,176
Voter approved projects	-	-	2,045,493	-	-	2,045,493
Fire Department	-	230,442	-	-	-	230,442
Capital projects	-	-	-	644,681	332,876	977,557
Park development	-	-	-	-	33,684	33,684
Tax increment financing	-	-	-	-	49,650	49,650
Developer escrow	35,023	-	-	-	-	35,023
Public Safety Aid	91,372	-	-	-	-	91,372
Total restricted	126,395	230,442	2,045,493	644,681	697,386	3,744,397
Assigned for:						
Fire truck capital	-	-	-	-	308,444	308,444
Unassigned	1,089,121	-	-	-	-	1,089,121
Total	\$ 1,215,516	\$ 230,442	\$ 2,045,493	\$ 644,681	\$ 1,005,830	\$ 5,141,962

The EDA Component Unit has restricted cash fund balance of \$299,887 for economic development.

The Sewer Authority Component Unit has unrestricted cash position of \$618,789.

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 2023 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2023, 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 Clearwater 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 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.

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 2023. In 2023, the City was required to contribute the following percentages of annual covered payroll: 7.5% for Coordinated Plan members.

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

NOTE 8 - PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Funding Policy (Continued)

The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2023, 2022, and 2021, were \$37,412, \$32,388, and \$30,107, respectively.

NOTE 9 - INTERFUND TRANSFERS

Transfers during the year ended December 31, 2023, were as follows:

	Transfers In		Total
	Public Works Capital Projects Fund	Other Governmental Funds	
Transfers Out			
General Fund	\$ 30,000	\$ 109,869	\$ 139,869
Other governmental funds	-	46,083	46,083
Fire Department	-	143,730	143,730
Total	<u>\$ 30,000</u>	<u>\$ 299,682</u>	<u>\$ 329,682</u>

Transfers were made to cover cost of capital purchases, cost of future capital purchases, and closing a project fund.

NOTE 10 - TAX INCREMENT FINANCING

The City has entered into a Tax Increment Financing agreement which meet the criteria for disclosure under Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures. The City's authority to enter into these agreements comes from Minnesota Statute 469. The City entered into these agreements for the purpose of economic development. Under the agreement, the City and developer agree on an amount of development costs to be reimbursed to the developer by the City through tax revenues from the additional taxable value of the property generated by the development (tax increment). A "pay-as-you-go" note is established for this amount, on which the City makes payments for a fixed period of time with available tax increment revenue after deducting for certain administrative costs. During the year ended December 31, 2023, the City generated \$94,272 in tax increment revenue and made no payments to developers. There were payments of \$42,422 due to developers at December 31, 2023.

NOTE 11 - SUBSEQUENT EVENT

On February 21, 2024, the City entered into a finance purchase agreement for snow plow trucks totaling \$427,037.

SUPPLEMENTARY INFORMATION

City of Clearwater
Schedule of Receipts, Disbursements, and Changes
in Cash Fund Balances - Budget and Actual -
General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Receipts				
Taxes				
Property taxes	\$ 582,400	\$ 582,400	\$ 585,879	\$ 3,479
Cable franchise taxes	10,000	10,000	11,308	1,308
Total taxes	<u>592,400</u>	<u>592,400</u>	<u>597,187</u>	<u>4,787</u>
Special assessments	500	500	2,773	2,273
Intergovernmental				
State grants and aids				
Local government aid	361,903	361,903	361,903	-
Public safety aid	-	-	91,372	91,372
Other state aid	22,000	22,000	15,076	(6,924)
Total intergovernmental	<u>383,903</u>	<u>383,903</u>	<u>468,351</u>	<u>84,448</u>
License and permits				
Licenses and permits	13,500	13,500	19,951	6,451
Building permits	60,000	60,000	145,469	85,469
Assessment searches	2,000	2,000	950	(1,050)
Total licenses and permits	<u>75,500</u>	<u>75,500</u>	<u>166,370</u>	<u>90,870</u>
Charges for services				
Planning and zoning	4,000	4,000	77,091	73,091
Miscellaneous	52,790	52,790	33,956	(18,834)
Total charges for services	<u>56,790</u>	<u>56,790</u>	<u>111,047</u>	<u>54,257</u>
Fine and forfeitures	-	-	13,175	13,175
Miscellaneous				
Refunds and reimbursements	-	-	8,795	8,795
Donations	-	-	4,000	4,000
Interest income	5,000	5,000	19,054	14,054
Escrow agreement proceeds	7	7	97,330	97,323
Total miscellaneous	<u>5,007</u>	<u>5,007</u>	<u>129,179</u>	<u>124,172</u>
Total receipts	<u>1,114,100</u>	<u>1,114,100</u>	<u>1,488,082</u>	<u>373,982</u>

City of Clearwater
Schedule of Receipts, Disbursements, and Changes
in Cash Fund Balances - Budget and Actual -
General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Disbursements				
General government				
Mayor and council				
Current	\$ 26,700	\$ 26,700	\$ 20,397	\$ (6,303)
Clerk/treasurer				
Current	253,200	253,200	243,855	(9,345)
Elections				
Current	500	500	800	300
Audit and accounting				
Current	30,000	30,000	29,711	(289)
Legal				
Current	15,000	15,000	43,994	28,994
Engineering				
Current	15,000	15,000	25,554	10,554
Assessor				
Current	14,000	14,000	14,180	180
Planning and zoning				
Current	9,030	9,030	10,984	1,954
Miscellaneous general government				
Current	84,100	84,100	144,385	60,285
Capital outlay	49,500	-	106,832	106,832
Total general government	<u>497,030</u>	<u>447,530</u>	<u>640,692</u>	<u>193,162</u>
Public safety				
Police protection				
Current	253,310	253,310	245,130	(8,180)
Building inspection				
Current	41,000	41,000	43,177	2,177
Animal control				
Current	300	300	75	(225)
Total public safety	<u>294,610</u>	<u>294,610</u>	<u>288,382</u>	<u>(6,228)</u>

City of Clearwater
Schedule of Receipts, Disbursements, and Changes
in Cash Fund Balances - Budget and Actual -
General Fund
Year Ended December 31, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Original and Final		
Disbursements				
Public works				
Streets and highways				
Current	\$ 323,450	\$ 323,450	\$ 325,150	\$ 1,700
Culture and recreation				
Parks				
Current	2,100	2,100	17	(2,083)
Libraries				
Current	30,000	30,000	33,152	3,152
Total culture and recreation	<u>32,100</u>	<u>32,100</u>	<u>33,169</u>	<u>1,069</u>
Miscellaneous				
Other				
Current	39,800	39,800	39,328	(472)
Total disbursements	<u>1,186,990</u>	<u>1,137,490</u>	<u>1,326,721</u>	<u>189,231</u>
Excess of receipts over (under) disbursements	(72,890)	(23,390)	161,361	184,751
Other Financing Sources (Uses)				
Proceeds from sale of capital asset	-	-	275	275
Transfers out	-	-	(139,869)	(139,869)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(139,594)</u>	<u>(139,594)</u>
Net change in cash fund balances	<u>\$ (72,890)</u>	<u>\$ (23,390)</u>	21,767	<u>\$ 45,157</u>
Cash Fund Balances				
Beginning of year			<u>1,193,749</u>	
End of year			<u>\$ 1,215,516</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, 2023

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original and Final			
Receipts				
Taxes				
Property taxes	\$ 143,700		\$ 144,601	\$ 901
Intergovernmental				
State grants and aids				
Fire aid	32,700		23,078	(9,622)
Charges for services				
Public safety	195,700		212,095	16,395
Miscellaneous				
Refunds and reimbursements	-		190	190
Donations	-		8,650	8,650
Interest income	30		3,098	3,068
Total miscellaneous	30		11,938	11,908
Total receipts	372,130		391,712	19,582
Disbursements				
Public safety				
Fire				
Current	228,400		160,684	(67,716)
Excess of receipts over disbursements	143,730		231,028	87,298
Other Financing Uses				
Transfers out	(143,730)		(143,730)	-
Net change in cash fund balances	\$ -		87,298	\$ 87,298
Cash Fund Balances				
Beginning of year			143,144	
End of year			\$ 230,442	

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, 2023

	Budgeted Amounts		Actual Amounts		Variance with Final Budget - Over (Under)
	Original and Final				
Receipts					
Taxes					
Miscellaneous taxes	\$ 258,000		\$ 383,194		\$ 125,194
Miscellaneous					
Refunds and reimbursements	-		18,368		18,368
Interest income	-		27,773		27,773
Total miscellaneous	-		46,141		46,141
Total receipts	258,000		429,335		171,335
Disbursements					
General government					
Current	16,000		11,475		(4,525)
Culture and recreation					
Parks					
Capital outlay	242,000		214,371		(27,629)
Total disbursements	258,000		225,846		(32,154)
Net change in cash fund balances	\$ -		203,489		\$ 203,489
Cash Fund Balances					
Beginning of year			1,842,004		
End of year			\$ 2,045,493		

City of Clearwater
Combining Statement of Balances Arising From
Cash Transactions - Nonmajor Governmental Funds
December 31, 2023

	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	\$ 28,598	\$ 5,086	\$ 49,650	\$ 153,505	\$ 113,988
Cash Fund Balances					
Restricted	\$ 28,598	\$ 5,086	\$ 49,650	\$ 153,505	\$ 113,988
Assigned	-	-	-	-	-
Total Cash Fund Balances	\$ 28,598	\$ 5,086	\$ 49,650	\$ 153,505	\$ 113,988

Debt Service	Capital Projects					
G.O. Equipmnt Certificate 2020A (317)	Street Capital (415)	Fire Capital Fund (420)	General Capital Fund (400)	Fire Truck Capital Fund (421)	T. H. 24 Corridor Fund (418)	Total Governmental Funds
\$ 13,683	\$ 134,886	\$ 120,627	\$ 72,467	\$ 308,444	\$ 4,896	\$ 1,005,830
\$ 13,683	\$ 134,886	\$ 120,627	\$ 72,467	\$ -	\$ 4,896	\$ 697,386
-	-	-	-	308,444	-	308,444
\$ 13,683	\$ 134,886	\$ 120,627	\$ 72,467	\$ 308,444	\$ 4,896	\$ 1,005,830

City of Clearwater
Combining Statement of Receipts, Disbursements, and
Changes in Cash Fund Balances -
Nonmajor Governmental Funds
Year Ended December 31, 2023

	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)
Receipts					
General property taxes	\$ -	\$ 77,269	\$ -	\$ 96,967	\$ 52,113
Tax increments	-	-	94,272	-	-
Miscellaneous taxes	-	88	-	-	-
Special assessments	-	-	-	21,785	13,677
Other grants and aid	-	9,679	-	-	-
Miscellaneous					
Park dedication fees	24,929	-	-	-	-
Interest income	388	69	673	2,084	1,548
Refunds and reimbursements	-	5,100	-	-	-
Donations	-	11,500	-	-	-
Other	-	15,250	-	-	-
Total receipts	<u>25,317</u>	<u>118,955</u>	<u>94,945</u>	<u>120,836</u>	<u>67,338</u>
Disbursements					
Current					
General government	-	-	46,380	-	-
Culture and recreation	-	129,787	-	-	-
Debt service					
Principal	-	-	-	85,000	40,000
Interest and other charges	-	-	-	38,620	27,601
Capital outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	25,085	-	-	-
Total disbursements	<u>-</u>	<u>154,872</u>	<u>46,380</u>	<u>123,620</u>	<u>67,601</u>
Excess of receipts over (under) disbursements	25,317	(35,917)	48,565	(2,784)	(263)
Other Financing Sources					
Transfers in	-	24,869	-	-	46,083
Transfers out	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>24,869</u>	<u>-</u>	<u>-</u>	<u>46,083</u>
Net change in cash fund balances	25,317	(11,048)	48,565	(2,784)	45,820
Cash Fund Balances					
Beginning of year	<u>3,281</u>	<u>16,134</u>	<u>1,085</u>	<u>156,289</u>	<u>68,168</u>
End of year	<u>\$ 28,598</u>	<u>\$ 5,086</u>	<u>\$ 49,650</u>	<u>\$ 153,505</u>	<u>\$ 113,988</u>

Debt Service		Capital Projects						
G.O.								
Equipmnt Certificate 2020A (317)	Street Capital (415)	2019 Street Improvement Project (416)	Fire Capital Fund (420)	General Capital Fund (400)	Fire Truck Capital Fund (421)	T. H. 24 Corridor Fund (418)	Total Governmental Funds	
\$ 99,012	\$ 105,979	\$ -	\$ 9,945	\$ 44,753	\$ -	\$ -	\$ 486,038	
-	-	-	-	-	-	-	94,272	
-	-	-	-	-	-	-	88	
-	-	-	-	-	-	-	35,462	
-	-	-	-	-	-	-	9,679	
-	-	-	-	-	-	-	24,929	
186	1,831	-	1,638	984	4,188	66	13,655	
-	-	-	-	-	-	-	5,100	
-	-	-	15,000	-	-	5,000	31,500	
-	-	-	-	-	-	-	15,250	
<u>99,198</u>	<u>107,810</u>	<u>-</u>	<u>26,583</u>	<u>45,737</u>	<u>4,188</u>	<u>5,066</u>	<u>715,973</u>	
-	-	-	-	-	-	-	46,380	
-	-	-	-	-	-	-	129,787	
86,000	-	-	-	-	-	-	211,000	
7,728	-	-	-	-	-	-	73,949	
-	-	-	-	38,270	-	20,170	58,440	
-	-	-	32,115	-	-	-	32,115	
-	14,950	-	-	-	-	-	14,950	
-	-	-	-	-	-	-	25,085	
<u>93,728</u>	<u>14,950</u>	<u>-</u>	<u>32,115</u>	<u>38,270</u>	<u>-</u>	<u>20,170</u>	<u>591,706</u>	
5,470	92,860	-	(5,532)	7,467	4,188	(15,104)	124,267	
-	-	-	50,000	65,000	93,730	20,000	299,682	
-	-	(46,083)	-	-	-	-	(46,083)	
-	-	(46,083)	50,000	65,000	93,730	20,000	253,599	
5,470	92,860	(46,083)	44,468	72,467	97,918	4,896	377,866	
8,213	42,026	46,083	76,159	-	210,526	-	627,964	
<u>\$ 13,683</u>	<u>\$ 134,886</u>	<u>\$ -</u>	<u>\$ 120,627</u>	<u>\$ 72,467</u>	<u>\$ 308,444</u>	<u>\$ 4,896</u>	<u>\$ 1,005,830</u>	

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ADDITIONAL SUPPLEMENTARY INFORMATION

City of Clearwater
Schedule of Accounts Receivable
Year Ended December 31, 2023

Fund	Source	Purpose	Amount
General Fund	Wright County	Clean-up settlement	\$ 1,688
General Fund	Midco	December Franchise Fee	910
General Fund	Minnesota Dept. of Finance	December Fines and Fees	1,018
General Fund	Clearwater EDA	Well Head Fence	50
General Fund	Scott Pesola, and Luis and Karina Martinez	Other licenses/permits	100
General Fund	G2 Enterprises	Building permit, plan check fee	186
General Fund	Sun Mechanical	Building permit, state building surcharge	50
General Fund	Neighborhood Plumbing & Heating	Building permit, state building surcharge	50
General Fund	Minnesota Home Improvements	Building permit, state building surcharge	50
Fire Department	Wright County	Clean-up settlement	330
Fire Department	Elvera Neuman	Fire Dept donations/contributions	20
Parks and Recreation	Clearwater/Clear Lake Food Shelf	Lease agreement fees	500
Parks and Recreation	Wright County	Clean-up settlement	186
Parks and Recreation	Wright County	Wright county sales tax	3
Parks and Recreation	Residents of Clearwater	Park rental tax	38
Parks and Recreation	Residents of Clearwater	Park rental refunds	500
EDA	Wright County	Clean-up settlement	193
Local Option Sales Tax	Minnesota Revenue	November and December Sales Tax	30,541
GO Improvement Bonds of 2015	Wright County	Clean-up settlement	437
GO Improvement Bonds of 2019	Wright County	Clean-up settlement	121
GO Equipment Certificate 2020A	Wright County	Clean-up settlement	231
General Capital Fund	Wright County	Clean-up settlement	93
Street Capital	Wright County	Clean-up settlement	294
T. H. 24 Corridor Fund	MN Department of Transportation	RAISE grant - engineering expenses	659
Fire Capital Fund	Wright County	Clean-up settlement	21
Public Works Capital	Wright County	Clean-up settlement	228
Water Fund	Utility Customers	Water utility receivable	16,784
Water Fund	Wright County	Clean-up settlement	253
Sewer Fund	Utility Customers	Sewer utility receivable	90,518
Sewer Fund	Clear Lake/Clearwater Sewer Authority	Admin and Treasurer Services	2,066
Sewer Fund	Wright County	Clean-up settlement	697
Refuse and Recycling Fund	Utility Customers	Refuse utility receivable	10,575
Refuse and Recycling Fund	Wright County	4th Qtr Payments - Recycle	819
Refuse and Recycling Fund	Wright County	Clean-up settlement	151
Storm Sewer Fund	Utility Customers	Storm sewer receivable	3,515
Storm Sewer Fund	Wright County	Clean-up settlement	31
Total			<u>\$ 163,906</u>

City of Clearwater
Schedule of Accounts Payable
Year Ended December 31, 2023

Fund	Vendor Name	Item and Purpose	Amount
General	AEM Financial Solutions LLC	Accounting services	\$ 7,070
General	American Solutions For Business	Checks for city	80
General	Andrea Lawrence	Mileage	34
General	Annita Smythe	Mileage	29
General	Beaudry Oil Company Inc	Diesel Fuel	31
General	Becky Marklowitz	Cleaning	496
General	Beuning LLC	Rent	2,128
General	Bolton & Menk Inc	Professional services	6,215
General	Central Hydraulics	Repairs	210
General	Central MCGowan Inc	Operating supplies	61
General	Cintas	Mats	256
General	City of Clearwater	Library water bill	148
General	Clearwater Parts City Auto	Operating supplies	1,138
General	Complete Auto Repair Service	Repairs	81
General	DVS Renewal	Vehicle Registration	142
General	Fidelity Security Life	Insurance premiums	38
General	Industrial Maint. Supplies	Operating supplies	116
General	Kennedy & Graven, Chartered	Professional services	5,541
General	Landform Professional SVCS	Professional services	77
General	Leadership Growth Group	Professional services	600
General	Menards - St Cloud	Operating supplies	295
General	Metro West Inspection SVCS Inc	Permits	23,205
General	MN NCPERS Life Insurance	Insurance premiums	80
General	North Star Signs	Decals for trucks	240
General	Patriot News MN	Ordinance notice	581
General	Pomps Tire Service Inc	Operating supplies	80
General	Premium Waters, Inc.	Operating supplies	12
General	Quill Corporation	Operating supplies	101
General	Rons Pest Control Service	Pest Control	170
General	Sharetech	Professional services	1,540
General	Yagers Fire Protection	Operating supplies	302
General	Wright Co Finance/Tax Service	Patrol services	21,109
Fire Department	American Solutions For Business	Checks for city	11
Fire Department	Becky Marklowitz	Cleaning	52
Fire Department	Blaine Brothers Inc	Professional services	11
Fire Department	Card Services (Coborns)	Fuel	250
Fire Department	Central MN Mutual Aid Assoc	Dues	50
Fire Department	Clearwater Parts City Auto	Repairs	27
Fire Department	Clearwater Tire & Auto	Operating supplies	1,152
Fire Department	Fidelity Security Life	Insurance premiums	1
Fire Department	Med Compass	Professional services	2,420
Fire Department	Melissa Alberico	Reimbursement	2,100
Fire Department	MN Fire Service Cert Board	Certifications	1,291
Fire Department	MN State Fire Chiefs Assoc	Membership renewal	60
Fire Department	Yagers Fire Protection	Operating supplies	99

City of Clearwater
Schedule of Accounts Payable
Year Ended December 31, 2023

Fund	Vendor Name	Item and Purpose	Amount
Fire Department	Clearwater Fire Relief	Supplemental Benefit	\$ 7,915
Parks and Recreation	American Solutions For Business	Checks for city	16
Parks and Recreation	Becky Marklowitz	Cleaning	402
Parks and Recreation	Betty Eiden	Reimbursement	100
Parks and Recreation	Carl Jansen	Reimbursement	100
Parks and Recreation	Clearwater Parts City Auto	Operating supplies	104
Parks and Recreation	Clifford Mooney	Reimbursement	100
Parks and Recreation	Doreen Wills	Reimbursement	100
Parks and Recreation	Janet Salzer	Reimbursement	100
Parks and Recreation	Nelson Sanitation & Rental Inc	Lions Park sanitation	210
Parks and Recreation	North Star Signs	Signs	96
Parks and Recreation	Teresa Steinhaus	Reimbursement	100
Parks and Recreation	Tina Elwell	Reimbursement	100
EDA	City of Clearwater	Rental	162
EDA	Fidelity Security Life	Insurance premiums	1
EDA	Select Electric Inc	Sign	3,199
EDA	Wright Co Economic Dvlpmnt Prt	Dues	822
T. H. 24 Corridor Fund	Bolton & Menk, Inc.	Professional services	6,653
TIF 1-1 Mississippi Ridge	Minnwest Bank	TIF Payment	42,422
Water	American Solutions For Business	Checks for city	57
Water	City of Clearwater	Permit	50
Water	Clearwater Parts City Auto	Operating supplies	9
Water	Fidelity Security Life	Insurance premiums	10
Water	Hawkins Inc	Operating supplies	20
Water	Traut Wells, Inc	Professional services	70
Water	UtilityLogic	Operating supplies	2,728
Sewer	American Solutions For Business	Checks for city	57
Sewer	Fidelity Security Life	Insurance premiums	12
Sewer	Tri-State Pump & Control	Repairs	436
Sewer	UtilityLogic	Operating supplies	2,728
Sewer	Clear Lake/Clwter Sewer Authority	Sewer Flow/Surcharge	47,120
Refuse and Recycling	American Solutions For Business	Checks for city	7
Refuse and Recycling	Fidelity Security Life	Insurance premiums	1
Total			\$ 195,737

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

Basic Financial Statements

December 31, 2023

**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, 2023**

<u>Elected Officials</u>	<u>Position</u>	<u>Term Expires</u>
Andrea Lawrence Wheeler	Mayor	December 31, 2024
Travis Winkelman	Council Member	December 31, 2026
Santos Vazquez	Council Member	December 31, 2024
James Schwinghammer	Council Member	December 31, 2026
Lindsey Luhmann	Council Member	December 31, 2024
<u>Administration</u>		
Annita Smythe	City Administrator	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, 2023, 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, 2023, 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, 2023, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City 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 twelve months 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 basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic 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 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 25, 2024, 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 25, 2024.

BerganKDV, Ltd.

St. Cloud, Minnesota
March 25, 2024

BASIC FINANCIAL STATEMENTS

City of Clearwater
Water and Sewer Enterprise Funds
Statement of Net Position
December 31, 2023

	Water (600)	Sewer (601)	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,084,028	\$ 896,318	\$ 1,980,346
Special assessment receivable			
Delinquent	1,451	4,734	6,185
Deferred	5,952	19,423	25,375
Accounts receivable	16,784	90,518	107,302
Due from other governments	253	2,763	3,016
Prepaid expenses	6,188	6,077	12,265
Total current assets	<u>1,114,656</u>	<u>1,019,833</u>	<u>2,134,489</u>
Noncurrent assets			
Equity interest in joint venture	-	6,687,071	6,687,071
Capital assets being depreciated			
Sewer and water systems	4,547,889	3,932,012	8,479,901
Equipment	251,005	37,949	288,954
Total capital assets	<u>4,798,894</u>	<u>3,969,961</u>	<u>8,768,855</u>
Less accumulated depreciation	<u>(1,662,178)</u>	<u>(1,905,790)</u>	<u>(3,567,968)</u>
Net capital assets	<u>3,136,716</u>	<u>2,064,171</u>	<u>5,200,887</u>
Total noncurrent assets	<u>3,136,716</u>	<u>8,751,242</u>	<u>11,887,958</u>
Total assets	<u>4,251,372</u>	<u>9,771,075</u>	<u>14,022,447</u>
Deferred Outflows of Resources			
Deferred outflows of resources related to pension activity	14,979	19,660	34,639
Total assets and deferred outflows of resources	<u>\$ 4,266,351</u>	<u>\$ 9,790,735</u>	<u>\$ 14,057,086</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 2,894	\$ 3,233	\$ 6,127
Salaries and benefits payable	3,075	3,498	6,573
Due to other governments	50	47,120	47,170
Interest payable	4,164	12,091	16,255
Amount due within one year	78,180	467,854	546,034
Total current liabilities	<u>88,363</u>	<u>533,796</u>	<u>622,159</u>
Noncurrent liabilities			
Compensated absences	5,715	6,616	12,331
Note from direct borrowing	769,000	1,900,000	2,669,000
Bonds payable	500,000	-	500,000
Premium on bonds payable	15,311	-	15,311
Net pension liability	50,550	66,345	116,895
Less amount due within one year	<u>(78,180)</u>	<u>(467,854)</u>	<u>(546,034)</u>
Total noncurrent liabilities	<u>1,262,396</u>	<u>1,505,107</u>	<u>2,767,503</u>
Total liabilities	<u>1,350,759</u>	<u>2,038,903</u>	<u>3,389,662</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to pension activity	15,915	20,888	36,803
Net Position			
Net investment in capital assets	1,852,405	6,851,242	8,703,647
Unrestricted	1,047,272	879,702	1,926,974
Total net position	<u>2,899,677</u>	<u>7,730,944</u>	<u>10,630,621</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 4,266,351</u>	<u>\$ 9,790,735</u>	<u>\$ 14,057,086</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, 2023

	Water (600)	Sewer (601)	Total
Operating Revenues			
Charges for services	\$ 242,404	\$ 1,141,442	\$ 1,383,846
Permits, hook-up fees, and penalties	-	12,364	12,364
Miscellaneous operating revenues	4,660	19,630	24,290
Total operating revenues	<u>247,064</u>	<u>1,173,436</u>	<u>1,420,500</u>
Operating Expenses			
Wages and salaries	122,083	159,181	281,264
Contracted services	595	33	628
Materials and supplies	21,956	6,284	28,240
Repairs and maintenance	12,970	6,684	19,654
Professional services	1,398	1,314	2,712
Sewer authority charges	-	567,267	567,267
Utilities	18,169	4,435	22,604
Depreciation	103,765	82,408	186,173
Miscellaneous	18,225	12,401	30,626
Total operating expenses	<u>299,161</u>	<u>840,007</u>	<u>1,139,168</u>
Operating income (loss)	(52,097)	333,429	281,332
Nonoperating Revenues (Expenses)			
Investment income	14,718	12,170	26,888
Property taxes	52,816	-	52,816
Intergovernmental	8,828	8	8,836
Refunds and reimbursements	10,108	-	10,108
Trunk and access charges	137,500	192,500	330,000
Interest expense	(22,797)	(37,068)	(59,865)
Other income	13,804	-	13,804
Total nonoperating revenues (expenses)	<u>214,977</u>	<u>167,610</u>	<u>382,587</u>
Income (loss) before change in equity interest, contributions and transfers	162,880	501,039	663,919
Change in equity interest	-	(252,517)	(252,517)
Change in net position	162,880	248,522	411,402
Net Position			
Beginning of year	<u>2,736,797</u>	<u>7,482,422</u>	<u>10,219,219</u>
End of year	<u>\$ 2,899,677</u>	<u>\$ 7,730,944</u>	<u>\$ 10,630,621</u>

See notes to basic financial statements.

City of Clearwater
Water and Sewer Enterprise Funds
Statement of Cash Flows
Year Ended December 31, 2023

	Water (600)	Sewer (601)	Total
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 241,397	\$ 1,158,208	\$ 1,399,605
Payments to suppliers	(73,725)	(588,969)	(662,694)
Payments to employees	(120,684)	(156,172)	(276,856)
Net cash flows - operating activities	<u>46,988</u>	<u>413,067</u>	<u>460,055</u>
Cash Flows - Noncapital Financing Activities			
Intergovernmental	8,822	-	8,822
Property taxes	53,318	-	53,318
Miscellaneous revenue	161,412	192,500	353,912
Net cash flows - noncapital financing activities	<u>223,552</u>	<u>192,500</u>	<u>416,052</u>
Cash Flows - Capital and Related Financing Activities			
Principal paid on debt	(73,938)	(455,000)	(528,938)
Interest paid on debt	(24,492)	(39,964)	(64,456)
Acquisition of capital assets	(51,548)	-	(51,548)
Net cash flows - capital and related financing activities	<u>(149,978)</u>	<u>(494,964)</u>	<u>(644,942)</u>
Cash Flows - Investing Activities			
Interest and dividends received	<u>14,718</u>	<u>12,170</u>	<u>26,888</u>
Net change in cash and cash equivalents	135,280	122,773	258,053
Cash and Cash Equivalents			
Beginning of year	<u>948,748</u>	<u>773,545</u>	<u>1,722,293</u>
End of year	<u>\$ 1,084,028</u>	<u>\$ 896,318</u>	<u>\$ 1,980,346</u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities (Loss)			
Operating income (loss)	\$ (52,097)	\$ 333,429	\$ 281,332
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Depreciation expense	103,765	82,408	186,173
Accounts receivable	(3,241)	(6,007)	(9,248)
Due from other governments	346	(1,813)	(1,467)
Special assessment receivable	(2,772)	(7,408)	(10,180)
Prepaid items	(584)	(2,075)	(2,659)
Accounts payable	(276)	1,722	1,446
Due to other governmental units	(194)	8,367	8,173
Salaries payable	1,765	4,554	6,319
Compensated absences payable	276	(110)	166
Total adjustments	<u>99,085</u>	<u>79,638</u>	<u>178,723</u>
Net cash flows - operating activities	<u>\$ 46,988</u>	<u>\$ 413,067</u>	<u>\$ 460,055</u>

**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, 2023, was \$6,687,071.

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 2. 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.

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 assets 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 assets 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, 2023, 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	\$ 2,655,484
Savings	1,692,160
Certificates of deposits	1,817,020
Total deposits	\$ 6,164,664

**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, 2023, the City had the following investments:

Investments	Fair Value	Maturity Date	Moody's Rating
First Americ Treasury Oblig CI X	\$ 42,896	N/A	N/A
US Treasury Note 8V80	49,875	01/31/24	Aaa
US Treasury Note CBM2	149,068	02/15/24	Aaa
US Treasury Note 8B66	49,842	02/15/24	Aaa
US Treasury Note 8ZC7	144,076	02/28/25	Aaa
US Treasury Note 8ZF0	47,541	03/31/25	Aaa
US Treasury Note 84R8	48,862	05/31/25	Aaa
US Treasury Note CFK2	49,264	09/15/25	Aaa
US Treasury Note 86F2	48,254	02/28/26	Aaa
US Treasury Note 86S4	48,053	04/30/26	Aaa
US Treasury Note 87B0	47,416	06/30/26	Aaa
US Treasury Note 82A7	46,797	08/15/26	Aaa
US Treasury Note 8YQ7	46,811	10/31/26	Aaa
US Treasury Note 8U24	47,270	11/15/26	Aaa
US Treasury Note 8V98	47,465	02/15/27	Aaa
Ishares Treasury Bond	173,502	N/A	N/A
4M Fund (General)	222,150	N/A	N/A
	<u>\$ 1,309,142</u>		
Total			

Credit Risk: This is the 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.

**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, 2023:

- ◆ \$1,086,992 of investments are valued using quoted market prices (Level 1 inputs)

C. Balances

As of December 31, 2023, the City had deposits and investments as follows:

Deposits (Note 2.A.)	\$ 6,164,664
Petty cash	150
Investments (Note 2.B.)	<u>1,309,142</u>
Total deposits and investments	<u><u>\$ 7,473,956</u></u>

Deposits and investments are presented in the December 31, 2023, basic financial statements as follows:

Statement of balances arising from cash

Transactions - governmental funds

Cash and investments	\$ 5,141,962
Cash and investments - component unit	299,887

Statement of balances arising from cash

Transactions - proprietary funds

Cash and cash equivalents - Water Fund	1,084,028
Cash and cash equivalents - Sewer Fund	896,318
Cash and cash equivalents - Refuse and Recycling Fund	26,051
Cash and cash equivalents - Storm Sewer	<u>25,710</u>

Total deposits and investments	<u><u>\$ 7,473,956</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, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Water and sewer system	\$ 8,479,102	\$ 799	\$ -	\$ 8,479,901
Equipment	241,738	49,673	2,457	288,954
Total capital assets being depreciated	<u>8,720,840</u>	<u>50,472</u>	<u>2,457</u>	<u>8,768,855</u>
Less accumulated depreciation for				
Water and sewer system	3,197,395	172,480	-	3,369,875
Equipment	186,857	13,693	2,457	198,093
Total accumulated depreciation	<u>3,384,252</u>	<u>186,173</u>	<u>2,457</u>	<u>3,567,968</u>
Total capital assets being depreciated, net	<u>5,336,588</u>	<u>(135,701)</u>	<u>-</u>	<u>5,200,887</u>
Utility enterprise funds capital position, net	<u>\$ 5,336,588</u>	<u>\$ (135,701)</u>	<u>\$ -</u>	<u>\$ 5,200,887</u>

Depreciation expense of \$103,765 and \$82,408 was charged to the Water and Sewer fund respectively for the year ended December 31, 2023.

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	\$ 1,900,000	\$ 463,000
2021 G.O. PFA water revenue note	06/24/21	1.00%	1,114,021 *	08/20/27	769,000	39,000
Bonds payable						
G.O. Bonds						
2015 G.O. Improvement Bond	05/15/15	3.00%-3.25%	\$ 780,000	12/01/35	500,000	35,000
Total					<u>3,169,000</u>	<u>537,000</u>
Compensated absences					12,331	9,034
Total proprietary funds					<u>\$ 3,181,331</u>	<u>\$ 546,034</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, 2023, 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	\$ 2,355,000	\$ -	\$ 455,000	\$ 1,900,000
G.O. PFA water revenue note	807,938	-	38,938	769,000
Bonds payable				
G.O. improvement Bonds	535,000	-	35,000	500,000
Compensated absences	12,165	14,156	13,990	12,331
Total proprietary funds	<u>\$ 3,710,103</u>	<u>\$ 14,156</u>	<u>\$ 542,928</u>	<u>\$ 3,181,331</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
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	41,000	6,100	47,100	40,000	11,013	51,013
2029-2033	210,000	24,290	234,290	215,000	36,613	251,613
2034-2038	221,000	13,580	234,580	100,000	4,875	104,875
2039-2041	138,000	2,760	140,760	-	-	-
Total	<u>\$ 2,669,000</u>	<u>\$ 156,406</u>	<u>\$ 2,825,406</u>	<u>\$ 500,000</u>	<u>\$ 107,653</u>	<u>\$ 607,653</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 2023 was estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2023, 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. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

**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 2023 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, 2023, were \$13,484. 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, 2023, the City reported a liability of \$116,895 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 2023. 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 \$3,244.

The net pension liability was measured as of June 30, 2023, 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, 2023, relative to the total employer contributions received from all of PERA's participating employers. The Water and Sewer Enterprise Funds' proportionate share was 0.00209%, at the end of the measurement period and 0.00207% for the beginning of the period.

Funds' proportionate share of the net pension liability	\$ 116,895
State of Minnesota's proportionate share of the net pension liability associated with the Funds'	3,244
	3,244
Total	\$ 120,139

**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, 2023, the Water and Sewer Enterprise Funds' recognized pension expense of \$20,246 for its proportionate share of General Employees Plan's pension expense. Included in the amount, the Water and Sewer Enterprise Funds recognized \$14 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, 2023, 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
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 3,807	\$ 763
Changes in actuarial assumptions	17,958	32,040
Net difference between projected and actual investment earnings	-	4,000
Changes in proportion	6,132	-
Contributions paid to PERA subsequent to the measurement date	<u>6,742</u>	<u>-</u>
Total	<u>\$ 34,639</u>	<u>\$ 36,803</u>

**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 \$6,742 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, 2024. 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
2024	\$ 5,151
2025	(15,161)
2026	3,640
2027	(2,536)
Total	\$ (8,906)

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	Expected Real
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, 2023, 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 7.0%. 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 7.0% 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 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

General Employees Fund

Changes in Actuarial Assumptions

- ◆ The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions

- ◆ An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- ◆ The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- ◆ The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- ◆ A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

G. Discount Rate

The discount rate used to measure the total pension liability in 2023 was 7.0%. 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's proportionate share of the General Employees Fund net pension liability	\$ 206,796	\$ 116,895	\$ 42,947

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- Employee Payroll	Fund's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee 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%
2023	0.00209%	116,895	3,244	120,139	165,782	70.51%	83.10%

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- Employee Payroll	Contributions as a Percentage of Covered- Employee 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%
2023	13,484	13,484	-	179,787	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

2023 Changes

Changes in Actuarial Assumptions

- ◆ The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions

- ◆ An additional one-time direct state aid contribution of \$170.1 million was contributed to the Plan on October 1, 2023.
- ◆ The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- ◆ The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- ◆ A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

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.

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

General Employees Fund (Continued)

2020 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- ◆ The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

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

2019 Changes

Changes in Actuarial Assumptions

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

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.
- ◆ Annual 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 annual 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, 2023

**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

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, 2023, 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 25, 2024. 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 a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses on Legal Compliance and Internal Control as audit finding 2023-001 that we consider to be a material weakness.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit that 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

BerganKDV, Ltd.

St. Cloud, Minnesota
March 25, 2024



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, 2023, 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 25, 2024.

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 - bid laws, depositories of public funds and public 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, insofar as they relate to accounting matters.

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.

St. Cloud, Minnesota
March 25, 2024

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

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Material Weakness:

Audit Finding 2023-001 - 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/Consultant receives and posts receipts. The Accountant/UB Clerk can prepare 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 City Administrator processes invoices and prints checks for payments. The City Administrator 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 UB Clerk, or Deputy Clerk in her absence, posts utility billing information into the general ledger, enters payments from the counter and maintains customer accounts and rates and the bill register.
- ◆ **Controls over the Journal Entry Process:** The City Administrator can post manual journal entry without any formal review.

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

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.