

**CITY OF SHELLY  
SHELLY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

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**CITY OF SHELLY, MINNESOTA**  
OFFICIAL DIRECTORY  
DECEMBER 31, 2019

Ronald Cakebread	Mayor
George Swenson	Councilperson
Lance Gilbertson	Councilperson
Todd Siemieniewski	Councilperson
Todd Swalstad	Councilperson
Mark Dohman	Clerk/Treasurer

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Shelly  
Shelly, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying cash basis financial statements of the governmental activities, business-type activities and each major fund of the City of Shelly, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities and each major fund of the City of Shelly, Minnesota, as of December 31, 2019, and the respective changes in cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

## **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelly, Minnesota's basic financial statements. The supplementary information on pages 19–25 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2020 on our consideration of the City of Shelly, Minnesota'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 the City of Shelly, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Shelly, Minnesota's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**CROOKSTON, MINNESOTA**

May 15, 2020

## **BASIC FINANCIAL STATEMENTS**

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF NET CASH POSITION**  
**DECEMBER 31, 2019**

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and investments	\$ 149,055	\$ 510,264	\$ 659,319
Restricted Assets			
Cash and investments	<u>-</u>	<u>42,167</u>	<u>42,167</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 149,055</b></u>	<u><b>\$ 552,431</b></u>	<u><b>\$ 701,486</b></u>
 <b>NET CASH POSITION</b>			
Restricted for:			
Improvements	\$ -	\$ 117,167	\$ 117,167
Unreserved	<u>149,055</u>	<u>435,264</u>	<u>584,319</u>
<b>TOTAL NET CASH POSITION</b>	<u><b>\$ 149,055</b></u>	<u><b>\$ 552,431</b></u>	<u><b>\$ 701,486</b></u>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF ACTIVITIES ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

FUNCTION	Disbursements	Program Receipts and Sources			Net Cash Sources (Uses) and Changes in Net Cash Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
General government	\$ 35,585	\$ 8,105	\$ -	\$ -	\$ (27,480)		\$ (27,480)
Public safety	29,303	7,325	1,493	-	(20,485)		(20,485)
Streets and highways	55,670	2,356	-	-	(53,314)		(53,314)
Culture and recreation	8,528	-	-	-	(8,528)		(8,528)
Housing rehab	566	1	-	-	(565)		(565)
Principal and interest paid on debt	5,555	-	-	-	(5,555)		(5,555)
Other	5,961	-	-	-	(5,961)		(5,961)
Total Governmental Activities	<u>141,168</u>	<u>17,787</u>	<u>1,493</u>	<u>-</u>	<u>(121,888)</u>		<u>(121,888)</u>
<b>Business-Type Activities:</b>							
Electric	245,157	234,368	-	-		\$ (10,789)	(10,789)
Water	30,727	28,299	-	-		(2,428)	(2,428)
Sewer	25,555	45,768	-	-		20,213	20,213
Garbage	20,965	18,412	-	-		(2,553)	(2,553)
Total Business-Type Activities	<u>322,404</u>	<u>326,847</u>	<u>-</u>	<u>-</u>		<u>4,443</u>	<u>4,443</u>
Total Government-Wide	<u>\$ 463,572</u>	<u>\$ 344,634</u>	<u>\$ 1,493</u>	<u>\$ -</u>	<u>(121,888)</u>	<u>4,443</u>	<u>(117,445)</u>
<b>General Receipts:</b>							
Property taxes					26,157	-	26,157
Intergovernmental (not restricted for special program)							
State					75,618	-	75,618
Interest earnings					842	5,669	6,511
Transfers					<u>11,461</u>	<u>(11,461)</u>	<u>-</u>
Total General Receipts					<u>114,078</u>	<u>(5,792)</u>	<u>108,286</u>
Changes in Cash Net Position					(7,810)	(1,349)	(9,159)
Net Cash Position, January 1					<u>156,865</u>	<u>553,780</u>	<u>710,645</u>
Net Cash Position, December 31					<u>\$ 149,055</u>	<u>\$ 552,431</u>	<u>\$ 701,486</u>

See Notes to the Basic Financial Statements



**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2019**

	<u>General</u>	<u>Housing Rehab Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 143,034	\$ 6,021	\$ 149,055
<b>TOTAL ASSETS</b>	<u>\$ 143,034</u>	<u>\$ 6,021</u>	<u>\$ 149,055</u>
 <b>CASH FUND BALANCE</b>			
Assigned	\$ -	\$ 6,021	\$ 6,021
Unassigned	<u>143,034</u>	<u>-</u>	<u>143,034</u>
<b>TOTAL CASH FUND BALANCE</b>	<u>\$ 143,034</u>	<u>\$ 6,021</u>	<u>\$ 149,055</u>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>General</u>	<u>Housing Rehab Fund</u>	<u>Total</u>
<b>RECEIPTS</b>			
Taxes	\$ 26,157	\$ -	\$ 26,157
Intergovernmental	79,314	-	79,314
Fire contracts	7,325	-	7,325
Licenses and permits	150	-	150
Charges for services	153	-	153
Rental	5,608	-	5,608
Interest	842	1	843
Other	2,347	-	2,347
	<u>121,896</u>	<u>1</u>	<u>121,897</u>
<b>TOTAL RECEIPTS</b>			
<b>DISBURSEMENTS</b>			
General government	35,585	-	35,585
Public safety	29,303	-	29,303
Streets and highways	55,670	-	55,670
Culture and recreation	8,528	-	8,528
Housing rehab	-	566	566
Debt service			
Principal	4,517	-	4,517
Interest	1,038	-	1,038
Other	5,961	-	5,961
	<u>140,602</u>	<u>566</u>	<u>141,168</u>
<b>TOTAL DISBURSEMENTS</b>			
Receipts Over (Under) Disbursements	(18,706)	(565)	(19,271)
<b>OTHER FINANCING SOURCES AND USES</b>			
Transfers from (to) other funds	11,461	-	11,461
Net Sources (Uses)	<u>11,461</u>	<u>-</u>	<u>11,461</u>
Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(7,245)	(565)	(7,810)
Fund Balance - January 1	<u>150,279</u>	<u>6,586</u>	<u>156,865</u>
Fund Balance - December 31	<u>\$ 143,034</u>	<u>\$ 6,021</u>	<u>\$ 149,055</u>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>ASSETS</b>					
Current Assets					
Cash and investments	<u>\$387,076</u>	<u>\$ 40,861</u>	<u>\$ 75,192</u>	<u>\$ 7,135</u>	<u>\$510,264</u>
Restricted Assets					
Cash and investments	<u>          -</u>	<u>          -</u>	<u>42,167</u>	<u>          -</u>	<u>42,167</u>
<b>TOTAL ASSETS</b>	<b><u>\$387,076</u></b>	<b><u>\$ 40,861</u></b>	<b><u>\$117,359</u></b>	<b><u>\$ 7,135</u></b>	<b><u>\$552,431</u></b>
<b>NET CASH POSITION</b>					
Restricted for improvements	\$ -	\$ -	\$117,167	\$ -	\$117,167
Unrestricted (deficit)	<u>387,076</u>	<u>40,861</u>	<u>192</u>	<u>7,135</u>	<u>435,264</u>
<b>TOTAL NET CASH POSITION</b>	<b><u>\$387,076</u></b>	<b><u>\$ 40,861</u></b>	<b><u>\$117,359</u></b>	<b><u>\$ 7,135</u></b>	<b><u>\$552,431</u></b>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET CASH POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>OPERATING RECEIPTS</b>					
Charges for services	<u>\$234,368</u>	<u>\$ 28,299</u>	<u>\$ 45,768</u>	<u>\$ 18,412</u>	<u>\$326,847</u>
<b>OPERATING DISBURSEMENTS</b>					
Contract services	-	-	436	20,965	21,401
Salaries and fringes	49,428	-	-	-	49,428
Maintenance and repairs	32,277	4,415	172	-	36,864
Permits and licenses	-	1,284	-	-	1,284
Testing and sampling	-	-	3,011	-	3,011
Chemicals	-	4,192	-	-	4,192
Wheeling and power	113,606	1,985	1,483	-	117,074
Office	11,342	603	521	-	12,466
Other	<u>32,621</u>	<u>410</u>	<u>169</u>	<u>-</u>	<u>33,200</u>
Total Operating Disbursements	<u>239,274</u>	<u>12,889</u>	<u>5,792</u>	<u>20,965</u>	<u>278,920</u>
Operating Income (Loss)	(4,906)	15,410	39,976	(2,553)	47,927
<b>NONOPERATING RECEIPTS (DISBURSEMENTS)</b>					
Interest earnings	5,339	71	259	-	5,669
Interest expense and fees	<u>-</u>	<u>(1,530)</u>	<u>(13,763)</u>	<u>-</u>	<u>(15,293)</u>
Net Nonoperating Receipts (Disbursements)	<u>5,339</u>	<u>(1,459)</u>	<u>(13,504)</u>	<u>-</u>	<u>(9,624)</u>
Net Income (Loss) Before Operating Transfers	433	13,951	26,472	(2,553)	38,303
Transfer From (To) Other Funds	<u>(11,461)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,461)</u>
Net Income (Loss)	(11,028)	13,951	26,472	(2,553)	26,842
Purchase of Capital Asset	(5,883)	(10,808)	-	-	(16,691)
Debt Principal	<u>-</u>	<u>(5,500)</u>	<u>(6,000)</u>	<u>-</u>	<u>(11,500)</u>
Change in Net Cash Position	(16,911)	(2,357)	20,472	(2,553)	(1,349)
Net Cash Position, January 1	<u>403,987</u>	<u>43,218</u>	<u>96,887</u>	<u>9,688</u>	<u>553,780</u>
Net Cash Position, December 31	<u>\$387,076</u>	<u>\$ 40,861</u>	<u>\$117,359</u>	<u>\$ 7,135</u>	<u>\$552,431</u>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF CASH FLOWS – CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 234,368	\$ 28,299	\$ 45,768	\$ 18,412	\$ 326,847
Payments to suppliers	(189,846)	(12,889)	(5,792)	(20,965)	(229,492)
Payments to employees	(49,428)	-	-	-	(49,428)
Net Cash Provided (Used) by Operating Activities	<u>(4,906)</u>	<u>15,410</u>	<u>39,976</u>	<u>(2,553)</u>	<u>47,927</u>
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Transfers from (to) other funds	<u>(11,461)</u>	-	-	-	<u>(11,461)</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(11,461)</u>	-	-	-	<u>(11,461)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase of capital asset	(5,883)	(10,808)	-	-	(16,691)
Interest paid on bonds	-	(1,530)	(13,763)	-	(15,293)
Debt principal payments made	-	(5,500)	(6,000)	-	(11,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,883)</u>	<u>(17,838)</u>	<u>(19,763)</u>	-	<u>(43,484)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	<u>5,339</u>	<u>71</u>	<u>259</u>	-	<u>5,669</u>
Net Increase (Decrease) in Cash	(16,911)	(2,357)	20,472	(2,553)	(1,349)
Cash Balance, January 1	<u>403,987</u>	<u>43,218</u>	<u>96,887</u>	<u>9,688</u>	<u>553,780</u>
Cash Balance, December 31	<u>\$ 387,076</u>	<u>\$ 40,861</u>	<u>\$ 117,359</u>	<u>\$ 7,135</u>	<u>\$ 552,431</u>

See Notes to the Basic Financial Statements

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019

The City of Shelly, Minnesota, (the "City") was incorporated as a statutory city, under the provision of the State of Minnesota. The City operates under a mayor and four-member council. It provides the following services: public safety, streets, public improvements, planning and zoning, electric, water, sewer, sanitation, and general administrative services.

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The financial statements of the City include all organizations, funds and account groups over which the City's Board exercises significant influence over and, or is financially accountable or organizations for which the nature and significance of their relationship with the City is such that exclusion would cause the City of Shelly, Minnesota's financial statements to be misleading.

Based on the foregoing criteria, the Shelly Volunteer Firefighters Organization is not included in the City's reporting entity. The Organization was established by its members to provide fire safety and protection for the community. Its members have sole authority over daily operations and financial activities.

Currently, the City does not have any component units.

**Basis of Presentation**

*Government-Wide Financial Statements*

The Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

*Fund Financial Statements*

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary and fiduciary.

*Governmental Funds*

General Fund

The general fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

Special Revenue Fund

Special revenue funds are used to account for the proceeds of specific revenue sources (other than capital projects) where the expenditures are designated for purposes specified in the grant agreements. The City includes the following special revenue fund as major:

Housing Rehab Fund – is used to account for the cash received and disbursed for the City's housing rehab program.

*Proprietary Funds*

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector. The City includes the following enterprise funds as major:

Electric Fund – account for the activities in providing electricity services to the public users.

Water Fund – account for the activities in providing water services to the public users.

Sewer Fund – account for the activities in providing sewer services to the public users.

Garbage Fund – account for the activities in providing garbage collection services to the public users.

**Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe the recognition of revenues and expenditures within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

*Measurement Focus*

In the government-wide Statement of Net Cash Position and the Statement of Activities Arising from Cash Transactions, governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined below.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources as they are needed.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the cash basis of accounting is used as appropriate:

All governmental and business-type funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

When fund balance resources are available for use, it is the government's policy to use restricted, committed, assigned and unassigned resources as needed in that order.

*Basis of Accounting*

The financial statements are presented in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The City of Shelly, Minnesota, has elected to comply with the Minnesota Office of the State Auditor's minimum reporting requirements prescribed for cities fewer than 2,500 in population.

In the government-wide Statement of Net Cash Position and Statement of Activities Arising from Cash Transactions, governmental and business-type activities are presented using a cash method of accounting. This basis recognizes revenues and receipts and disbursements when they result from cash transactions in government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or unbilled services provided in current year and capital assets) and certain liabilities and their related expense (such as accounts payables, unpaid goods or services received in the current year and accrued expenses and long-term debt) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the government-wide financials and the statements for proprietary funds would be presented on the accrual basis of accounting.

**Budgets**

The annual budget was adopted this year through the passage of an annual budget ordinance and amended as required for the general fund and all major special revenue funds. The same basis of accounting is used for the budget presentation as is used to reflect the cash receipts and disbursements recognized. Any budget changes are approved by the Council. All unencumbered appropriations lapse at year-end.

**Revenues**

In the Statement of Activities Arising from Cash Transactions, cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues: charges for services, licenses, permit and fees, rental income and operating and capital grants specific to programs. All other governmental revenues and general tax levies are classified as general revenue.



**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

**Property Taxes**

Property taxes are set by the City Council in October of each year, and are certified to the County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes.

The County spreads all levies over taxable property. Such taxes become an enforceable lien on January 1. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. The County provides tax settlements to the City throughout the year. No receivable is recorded by the City because it used the cash basis method of accounting. Revenues are recognized in the year of collection.

Cities with populations below 2,500, as is the City of Shelly, Minnesota, are exempt from the State's levy limitation law.

**Cash and Investments**

Cash balances are deposited in each fund's name in separate accounts. All the City's cash and investments during the year were in interest-bearing checking accounts, money market accounts or short-term certificates of deposit, authorized by statute.

**Restricted Cash and Investments**

A restricted cash balance has been set aside for future water system improvements in accordance with requirements established by USDA in its loan agreement.

**Net Position**

In the government-wide financial statements, equity is classified as "net position" and displayed in two components:

1. Restricted Net Position – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net assets that do not meet the definition of "restricted."

**Cash Fund Balance**

In the governmental fund financial statements, cash fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

*Nonspendable* fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

*Restricted* fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed* fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority which is the City Council through an ordinance or resolution.

*Assigned* fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

*Unassigned* fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

### **Estimates**

The preparation of financial statements in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 DEPOSITS**

Minnesota Statutes require that all deposits with financial institutions be collateralized in an amount equal to 110% of deposits in excess of FDIC (140% if collateralized with notes secured by first mortgages).

At December 31, 2019, the City's carrying amount of deposits was \$701,486 and the bank balance was \$708,768. All of the deposits were covered by FDIC and by an irrevocable and unconditional letter of credit, irrevocably authorized to draw on the Federal Home Loan Bank of Des Moines, in an amount not to exceed \$750,000.

### **Interest Rate Risk**

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

**Credit Risk**

The City is authorized by Minnesota Statutes to invest in the following: direct obligations or obligations guaranteed by the federal government or its agencies; share of investment companies registered under the Federal Investment Company Act of 1940 and is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of Minnesota Housing Finance Agency rated "A" or better; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank or insurance company, domestic branch of a foreign bank and with a credit quality in one of the top two highest categories; repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The City has no investment policy that would further limit its investment choices.

**Custodial Credit Risk - Deposits**

The City does not have a formal custodial credit risk policy. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it.

**NOTE 3 DEFINED BENEFIT PENSION PLANS**

**Plan Description**

All full-time and certain part-time employees of the City of Shelly 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 are cost-sharing, multiple-employer retirement plans. These 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.

General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated 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 five years of credited service. The defined benefit 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.

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 Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. The

**CITY OF SHELLY, MINNESOTA**  
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 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 before retirement benefits begin.

The benefit provisions stated in the preceding 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, Police and Fire, and Correctional plans. That report may be obtained on the PERA's website at [www.mnpera.org/about/financial/](http://www.mnpera.org/about/financial/).

### **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 of Shelly makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.5 percent, respectively, of their annual covered salary in 2019. In 2019, the City of Shelly was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.5 percent for Coordinated Plan members.

The City of Shelly's contributions to the General Employees Fund for the years ended December 31, 2019, 2018 and 2017 were \$5,801, \$8,726, and \$5,631, respectively.

### **NOTE 4 EXCESS EXPENDITURES OVER APPROPRIATIONS**

Expenditures exceeded appropriations in the General Fund for the year ended December 31, 2019, by \$11,320.

**CITY OF SHELLY, MINNESOTA**  
 NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED  
 DECEMBER 31, 2019

**NOTE 5 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters.

Workers compensation coverage is provided through a pooled self-insurance program through the League of Minnesota Cities Insurance Trust (LMCIT). The City pays an annual premium to LMCIT. The City is subject to supplemental assessments if deemed necessary by the LMCIT.

The LMCIT reinsures through Workers Compensation Reinsurance Association (WCRA) as required by law, for workers compensation. The City's workers compensation coverage is retrospectively rated. With this type of coverage, final premiums are determined after loss experienced is known. The amount of premium adjustment, if any, is considered immaterial and not recorded until received or paid.

Property and casualty insurance coverage is provided through a pooled self-insurance program through the LMCIT. The City pays an annual premium to the LMCIT, which reinsures through commercial companies for claims in excess of various amounts. The City retains risk from the deductible portions.

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

**NOTE 6 COMMITMENTS**

The general fund has a fire truck loan with a balance of \$25,128 as of December 31, 2019, a maturity date of June 12, 2024 and 3.5% interest rate. The water fund has a general obligation revenue bond with a balance of \$25,100 as of December 31, 2019, a maturity date of January 1, 2024 and 5% interest rate. The sewer fund has a general obligation revenue bond with a balance of \$361,000 as of December 31, 2019, a maturity date of January 1, 2050 and 3.75% interest rate. The City makes annual payments on these bonds and loan. In 2019, the City committed to replacing the sewer lift station pumps for \$33,000, that will not be done until 2020.

**NOTE 7 INTERFUND TRANSFER**

The composition of the interfund transfer as of December 31, 2019, is as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Electric Fund	\$ 11,461	To provide funds for road repair work

## **SUPPLEMENTAL INFORMATION**

**CITY OF SHELLY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual	Final
	Original	Final	Amounts	Budget to Actual
<b>RECEIPTS</b>				
Property taxes	\$ 26,500	\$ 26,500	\$ 26,157	\$ (343)
Intergovernmental:				
Local	2,078	2,078	2,203	125
State:				
Local governmental aid	61,915	61,915	61,915	-
Market value credit aid	180	180	302	122
Other state aid	14,402	14,402	14,894	492
Total Intergovernmental	<u>78,575</u>	<u>78,575</u>	<u>79,314</u>	<u>739</u>
Other:				
Fire Contracts and calls	7,925	7,925	7,325	(600)
Licenses and permits	100	100	150	50
Charges for services	900	900	153	(747)
Rental	5,578	5,578	5,608	30
Interest	500	500	842	342
Other	5,000	5,000	2,347	(2,653)
Total Other	<u>20,003</u>	<u>20,003</u>	<u>16,425</u>	<u>(3,578)</u>
 TOTAL RECEIPTS	 <u>125,078</u>	 <u>125,078</u>	 <u>121,896</u>	 <u>(3,182)</u>
<b>DISBURSEMENTS</b>				
General government:				
Mayor and council	3,000	3,000	3,154	(154)
City Clerk-Treasurer	15,250	15,250	14,019	1,231
Assessing	1,125	1,125	1,183	(58)
Insurance	4,600	4,600	4,691	(91)
Legal and audit	8,000	8,000	2,671	5,329
City hall	6,900	6,900	9,867	(2,967)
Total General Government	<u>38,875</u>	<u>38,875</u>	<u>35,585</u>	<u>3,290</u>
Public Safety and Welfare:				
Fire	27,852	27,852	28,689	(837)
Pest control	2,150	2,150	614	1,536
Total Public Safety and Welfare	<u>30,002</u>	<u>30,002</u>	<u>29,303</u>	<u>699</u>

**CITY OF SHELLY, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE – CASH BASIS**  
**GENERAL FUND - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budget Amounts		Actual	Final Budget to
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Actual</u>
Streets and Highways:				
Maintenance	\$ 41,250	\$ 41,250	\$ 55,670	\$ (14,420)
Total Streets and Highways	<u>41,250</u>	<u>41,250</u>	<u>55,670</u>	<u>(14,420)</u>
Culture and Recreation:				
Park	3,650	3,650	3,750	(100)
Community building	4,500	4,500	4,778	(278)
Total Culture and Recreation	<u>8,150</u>	<u>8,150</u>	<u>8,528</u>	<u>(378)</u>
Debt Service:				
Principal paid	5,555	5,555	4,517	1,038
Interest paid	-	-	1,038	(1,038)
Total Debt Service	<u>5,555</u>	<u>5,555</u>	<u>5,555</u>	<u>-</u>
Other:				
Real estate taxes	1,450	1,450	1,860	(410)
Post office building	4,000	4,000	4,101	(101)
Total Other	<u>5,450</u>	<u>5,450</u>	<u>5,961</u>	<u>(511)</u>
TOTAL DISBURSEMENTS	<u>129,282</u>	<u>129,282</u>	<u>140,602</u>	<u>(11,320)</u>
Receipts Over (Under) Disbursements	(4,204)	(4,204)	(18,706)	(14,502)
OTHER SOURCES AND USES				
Transfers from (to) other funds	-	-	11,461	11,461
Total Other Sources (Uses)	<u>-</u>	<u>-</u>	<u>11,461</u>	<u>11,461</u>
Receipts and Other Sources Over (Under) Disbursements and Other Uses	(4,204)	(4,204)	(7,245)	(3,041)
Beginning Fund Balance	<u>150,279</u>	<u>150,279</u>	<u>150,279</u>	<u>-</u>
Ending Fund Balance	<u>\$ 146,075</u>	<u>\$ 146,075</u>	<u>\$ 143,034</u>	<u>\$ (3,041)</u>



**CITY OF SHELLY, MINNESOTA**  
**SCHEDULE OF INDEBTEDNESS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Issued	Interest Rate	Issue Date	Final Maturity Date	Balance January 1, 2019	Issued	Retired	Balance December 31, 2019
Revenue Bonds							
G.O. Water Revenue Bonds	5.0%	1/1/1994	1/1/2024	\$ 30,600	-	\$ 5,500	\$ 25,100
G.O. Sewer Revenue Bonds 2010A	3.75%	12/1/2010	1/1/2050	367,000	-	6,000	361,000
USDA Fire Truck Loan	3.5%	1/1/2014	6/12/2024	29,645	-	4,517	25,128
Total Indebtedness				\$ 427,245	-	\$ 16,017	\$ 411,228

**CITY OF SHELLY, MINNESOTA**  
**SCHEDULE OF ADDITIONAL INFORMATION**  
**AS OF DECEMBER 31, 2019**

SCHEDULE OF ACCOUNTS RECEIVABLE

<u>Fund</u>	<u>Source of Revenue and Purpose</u>	<u>Amount</u>
Electric, Water, Sewer & Garbage	Customer user fees	<u>\$ 33,329</u>

SCHEDULE OF ACCOUNTS PAYABLE

<u>Fund</u>	<u>Vendor Name</u>	<u>Item or Purpose</u>	<u>Amount</u>
Electric, Water, Sewer & Garbage	Internal Revenue Service	payroll taxes	\$ 715
	MN PERA	PERA employer contribution	451
	Payroll - December	payroll wages	925
	MN Department of Revenue	payroll taxes	287
	MN Department of Revenue	sales tax	1,424
	Halstad Telephone	telephone	343
	Card Member Service	credit card charges	1,482
Electric	Otter Tail Power	purchased power	6,843
	WAPA	purchased power	3,951
	North-Holt Electric	emergency pole fire maintenance	6,970
	Red River Valley Coop	emergency pole fire maintenance	1,106
	Proulx Refrigeration Heating Appliances	heater installation	2,927
Garbage	Fuch's Sanitation Service	garbage service	<u>1,225</u>
			<u>\$ 28,649</u>

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>ASSETS</b>					
Current Assets					
Cash and investments	\$ 387,076	\$ 40,861	\$ 75,192	\$ 7,135	\$ 510,264
Restricted Assets					
Cash and investments	-	-	42,167	-	42,167
Capital Assets	261,312	565,315	2,118,411	-	2,945,038
Accumulated depreciation	(187,384)	(502,694)	(601,234)	-	(1,291,312)
Net Capital Assets	<u>73,928</u>	<u>62,621</u>	<u>1,517,177</u>	<u>-</u>	<u>1,653,726</u>
TOTAL ASSETS	<u>\$ 461,004</u>	<u>\$ 103,482</u>	<u>\$ 1,634,536</u>	<u>\$ 7,135</u>	<u>\$ 2,206,157</u>
<b>LIABILITIES</b>					
Noncurrent Liabilities					
Bonds payable	\$ -	\$ 25,100	\$ 361,000	\$ -	\$ 386,100
Total Liabilities	<u>-</u>	<u>25,100</u>	<u>361,000</u>	<u>-</u>	<u>386,100</u>
<b>NET POSITION</b>					
Net investment in capital assets	73,928	37,521	1,156,177	-	1,267,626
Restricted for improvements	-	-	117,167	-	117,167
Unrestricted	<u>387,076</u>	<u>40,861</u>	<u>192</u>	<u>7,135</u>	<u>435,264</u>
Total Net Position	<u>461,004</u>	<u>78,382</u>	<u>1,273,536</u>	<u>7,135</u>	<u>1,820,057</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 461,004</u>	<u>\$ 103,482</u>	<u>\$ 1,634,536</u>	<u>\$ 7,135</u>	<u>\$ 2,206,157</u>

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**MODIFIED CASH BASIS - PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 234,368	\$ 28,299	\$ 45,768	\$ 18,412	\$ 326,847
<b>OPERATING EXPENSES</b>					
Contract services	-	-	436	20,965	21,401
Salaries and fringes	49,428	-	-	-	49,428
Maintenance and repairs	32,277	4,415	172	-	36,864
Permits and licenses	-	1,284	-	-	1,284
Testing and sampling	-	-	3,011	-	3,011
Chemicals	-	4,192	-	-	4,192
Wheeling and power	113,606	1,985	1,483	-	117,074
Office	11,342	603	521	-	12,466
Depreciation	14,394	9,208	56,154	-	79,756
Other	32,621	410	169	-	33,200
Total Operating Expenses	<u>253,668</u>	<u>22,097</u>	<u>61,946</u>	<u>20,965</u>	<u>358,676</u>
Operating Income (Loss)	(19,300)	6,202	(16,178)	(2,553)	(31,829)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Intergovernmental	-	-	-	-	-
Interest earnings	5,339	71	259	-	5,669
Interest expense and bond fees	<u>-</u>	<u>(1,530)</u>	<u>(13,763)</u>	<u>-</u>	<u>(15,293)</u>
Net Nonoperating Revenues (Expenses)	<u>5,339</u>	<u>(1,459)</u>	<u>(13,504)</u>	<u>-</u>	<u>(9,624)</u>
Net Income (Loss) Before Transfers	(13,961)	4,743	(29,682)	(2,553)	(41,453)
Transfers From (To) Other Funds	<u>(11,461)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,461)</u>
Net Income (Loss)	(25,422)	4,743	(29,682)	(2,553)	(52,914)
Net Position, January 1	<u>486,426</u>	<u>73,639</u>	<u>1,303,218</u>	<u>9,688</u>	<u>1,872,971</u>
Net Position, December 31	<u>\$ 461,004</u>	<u>\$ 78,382</u>	<u>\$ 1,273,536</u>	<u>\$ 7,135</u>	<u>\$ 1,820,057</u>

**CITY OF SHELLY, MINNESOTA**  
**STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 234,368	\$ 28,299	\$ 45,768	\$ 18,412	\$ 326,847
Payments to suppliers	(189,846)	(12,889)	(5,792)	(20,965)	(229,492)
Payments to employees	<u>(49,428)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,428)</u>
Net Cash Provided (Used) by Operating Activities	<u>(4,906)</u>	<u>15,410</u>	<u>39,976</u>	<u>(2,553)</u>	<u>47,927</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Transfer from (to) other funds	<u>(11,461)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,461)</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>(11,461)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,461)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase or construction of capital asset	(5,883)	(10,808)	-	-	(16,691)
Interest paid on bonds	-	(1,530)	(13,763)	-	(15,293)
Bond principal paid	<u>-</u>	<u>(5,500)</u>	<u>(6,000)</u>	<u>-</u>	<u>(11,500)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,883)</u>	<u>(17,838)</u>	<u>(19,763)</u>	<u>-</u>	<u>(43,484)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received	<u>5,339</u>	<u>71</u>	<u>259</u>	<u>-</u>	<u>5,669</u>
Net Increase (Decrease) in Cash	(16,911)	(2,357)	20,472	(2,553)	(1,349)
Cash Balance, January 1	<u>403,987</u>	<u>43,218</u>	<u>96,887</u>	<u>9,688</u>	<u>553,780</u>
Cash Balance, December 31	<u>\$ 387,076</u>	<u>\$ 40,861</u>	<u>\$ 117,359</u>	<u>\$ 7,135</u>	<u>\$ 552,431</u>
<b>Cash Balance:</b>					
Current	\$ 387,076	\$ 40,861	\$ 75,192	\$ 7,135	\$ 510,264
Restricted	<u>-</u>	<u>-</u>	<u>42,167</u>	<u>-</u>	<u>42,167</u>
	<u>\$ 387,076</u>	<u>\$ 40,861</u>	<u>\$ 117,359</u>	<u>\$ 7,135</u>	<u>\$ 552,431</u>
<u>Reconciliation of Operating Income to Net Cash</u>					
<u>Provided (Used) by Operating Activities:</u>					
Operating income (loss)	\$ (19,300)	\$ 6,202	\$ (16,178)	\$ (2,553)	\$ (31,829)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	<u>14,394</u>	<u>9,208</u>	<u>56,154</u>	<u>-</u>	<u>79,756</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,906)</u>	<u>\$ 15,410</u>	<u>\$ 39,976</u>	<u>\$ (2,553)</u>	<u>\$ 47,927</u>

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Honorable Mayor and City Council  
City of Shelly  
Shelly, MN 56568

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 the governmental activities, business-type activities, and each major fund of the City of Shelly, Minnesota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Shelly's basic financial statements, and have issued our report thereon dated May 15, 2020. The City of Shelly, Minnesota, prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 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.

### Purpose of the Report

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.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**CROOKSTON, MINNESOTA**

May 15, 2020

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
City of Shelly  
Shelly, MN 56568

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 the governmental activities, the business-type activities, and each major fund of the City of Shelly, Minnesota as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Shelly, Minnesota's basic financial statements and have issued our report thereon dated May 15, 2020. The City of Shelly, Minnesota, prepares its financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control over Financial Reporting**

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

Our consideration of the 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2019-001 described in the accompanying schedule of findings to be a material weakness.

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. We consider the deficiency 2019-002 described in the accompanying schedule of findings to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Shelly, Minnesota'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The City of Shelly, Minnesota's Responses to Findings**

The City of Shelly, Minnesota's responses to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. The City of Shelly, Minnesota's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**CROOKSTON, MINNESOTA**

May 15, 2020



**CITY OF SHELLY, MINNESOTA**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2019**

**FINDING 2019-001 (Material Weakness)**

Criteria: Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition: Lack of sufficient segregation of duties relating to utility and service billings and cash receipts. The clerk is responsible for the utility billing, receipt of monies, recording transactions in receivable ledger and bank reconciliations.

Cause: Size and cost constraints limit the number of City personnel available within the municipality to perform accounting duties.

Effect: The lack of segregation of duties reduces the level of internal controls over financial reporting which could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The areas should be reviewed periodically and consideration given to improving the segregation of duties in the most effective manner possible.

View of Responsible Officials: The corrective action will be determined by management when it becomes cost effective to implement proper segregation of accounting duties.

**CITY OF SHELLY, MINNESOTA**  
**SCHEDULE OF FINDINGS - CONTINUED**  
**DECEMBER 31, 2019**

**FINDING 2019-002 (Significant Deficiency)**

Criteria: The City does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full disclosure financial statements in conformity with the cash basis of accounting.

Condition: An internal control deficiency over financial reporting may be determined present in the absence of the City's preparation of its financial statements and accompanying notes to the financial statements in accordance with the cash basis of accounting. In addition, the City does not have the internal resources to identify all journal entries required to maintain the general ledger on the cash basis of accounting. This control deficiency could result in a material misstatement to the financial statements that would not be detected or prevented.

Cause: The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect: A material misstatement in the City's financial statements may go undetected.

Recommendation: We recommend the City review its current training system to determine if it is cost effective for the City to obtain this knowledge internally. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

View of Responsible Officials: The planned corrective action will be implemented when it becomes cost effective.

**CITY OF SHELLY, MINNESOTA**  
**CORRECTIVE ACTION PLAN**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**FINDING 2019-001 (Material Weakness)**

Contact Person – Mark Dohman, City Clerk

Corrective Action Plan – The City has the following procedure in place to mitigate risk:

- 1) Council approves checks.

Completion Date – Ongoing

**FINDING 2019-002 (Significant Deficiency)**

Contact Person – Mark Dohman, City Clerk

Corrective Action Plan – Will obtain internal expertise to handle all aspects of external financial reporting when it becomes economically feasible.

Completion Date – Ongoing