

**CITY OF SHELLY
SHELLY, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

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CITY OF SHELLY, MINNESOTA
OFFICIAL DIRECTORY
DECEMBER 31, 2021

Ronald Cakebread

Mayor

George Swenson

Councilperson

Tom Keeney

Councilperson

Elijah Swenson

Councilperson

Todd Swalstad

Councilperson

Mark Dohman

Clerk/Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Shelly
Shelly, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying cash basis 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2021, and the respective changes in the 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 for Opinions

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. 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 Shelly, Minnesota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—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.

Responsibilities of Management 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, and for 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.

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's ability to continue as a going concern for twelve months beyond the financial statements 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 generally accepted auditing standards 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 generally accepted auditing standards 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'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's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Shelly's basic financial statements. The accompanying budgetary comparison schedule, schedule of indebtedness, schedule of additional information, statement of net position - modified cash basis - proprietary funds, statement of revenues, expenses, and changes in net position - modified cash basis - proprietary funds, and statement of cash flows - modified cash basis – proprietary funds, as listed in the table of contents as supplementary information are 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 budgetary comparison schedule, schedule of indebtedness, schedule of additional information, statement of net position - modified cash basis - proprietary funds, statement of revenues, expenses, and changes in net position - modified cash basis - proprietary funds, and statement of cash flows - modified cash basis – proprietary funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the official directory as noted in the table of contents but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2022, on our consideration of the City of Shelly's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City'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's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

May 10, 2022

BASIC FINANCIAL STATEMENTS

CITY OF SHELLY, MINNESOTA
STATEMENT OF NET CASH POSITION
DECEMBER 31, 2021

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and investments	\$ 97,815	\$ 500,924	\$ 598,739
Restricted Assets			
Cash and investments	<u>-</u>	<u>49,167</u>	<u>49,167</u>
TOTAL ASSETS	<u><u>\$ 97,815</u></u>	<u><u>\$ 550,091</u></u>	<u><u>\$ 647,906</u></u>
 NET CASH POSITION			
Restricted for:			
Small cities development	\$ 13,011	\$ -	\$ 13,011
Improvements	-	124,167	124,167
Unrestricted	<u>84,804</u>	<u>425,924</u>	<u>510,728</u>
TOTAL NET CASH POSITION	<u><u>\$ 97,815</u></u>	<u><u>\$ 550,091</u></u>	<u><u>\$ 647,906</u></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, 2021

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
Governmental Activities:							
General government	\$ 51,118	\$ 16,564	\$ 9,781	\$ -	\$ (24,773)		\$ (24,773)
Public safety	36,187	7,642	16,265	-	(12,280)		(12,280)
Streets and highways	45,128	2,203	-	13,011	(29,914)		(29,914)
Culture and recreation	7,559	-	-	-	(7,559)		(7,559)
Housing rehab	2,626	-	-	-	(2,626)		(2,626)
Other	6,551	-	-	-	(6,551)		(6,551)
Total Governmental Activities	<u>149,169</u>	<u>26,409</u>	<u>26,046</u>	<u>13,011</u>	<u>(83,703)</u>		<u>(83,703)</u>
Business-Type Activities:							
Electric	226,505	212,538	-	-		\$ (13,967)	(13,967)
Water	34,194	32,634	-	-		(1,560)	(1,560)
Sewer	31,264	44,223	-	-		12,959	12,959
Garbage	20,684	18,670	-	-		(2,014)	(2,014)
Total Business-Type Activities	<u>312,647</u>	<u>308,065</u>	<u>-</u>	<u>-</u>		<u>(4,582)</u>	<u>(4,582)</u>
Total Government-Wide	<u>\$ 461,816</u>	<u>\$ 334,474</u>	<u>\$ 26,046</u>	<u>\$ 13,011</u>	<u>(83,703)</u>	<u>(4,582)</u>	<u>(88,285)</u>
General Receipts:							
Property taxes					25,984	-	25,984
Intergovernmental (not restricted for special program)							
State					63,465	-	63,465
Interest earnings					12	1,462	1,474
Total General Receipts					<u>89,461</u>	<u>1,462</u>	<u>90,923</u>
Changes in Cash Net Position					5,758	(3,120)	2,638
Net Cash Position, January 1					92,057	553,211	645,268
Net Cash Position, December 31					<u>\$ 97,815</u>	<u>\$ 550,091</u>	<u>\$ 647,906</u>

See Notes to the Basic Financial Statements

CITY OF SHELLY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General	Housing Rehab Fund	Total
ASSETS			
Cash and investments	\$ 96,986	\$ 829	\$ 97,815
TOTAL ASSETS	<u>\$ 96,986</u>	<u>\$ 829</u>	<u>\$ 97,815</u>
 CASH FUND BALANCE			
Restricted			
Small cities development	\$ 13,011	\$ -	\$ 13,011
Assigned	-	829	829
Unassigned	<u>83,975</u>	<u>-</u>	<u>83,975</u>
TOTAL CASH FUND BALANCE	<u>\$ 96,986</u>	<u>\$ 829</u>	<u>\$ 97,815</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, 2021

	General	Housing Rehab Fund	Total
	<u> </u>	<u> </u>	<u> </u>
RECEIPTS			
Taxes	\$ 25,984	\$ -	\$ 25,984
Intergovernmental	104,725	-	104,725
Fire contracts	7,642	-	7,642
Licenses and permits	75	-	75
Rental	5,672	-	5,672
Interest	12	-	12
Other	<u>10,817</u>	<u>-</u>	<u>10,817</u>
TOTAL RECEIPTS	<u>154,927</u>	<u>-</u>	<u>154,927</u>
DISBURSEMENTS			
General government	51,118	-	51,118
Public safety	36,187	-	36,187
Streets and highways	45,128	-	45,128
Culture and recreation	7,559	-	7,559
Housing rehab	-	2,626	2,626
Other	<u>6,551</u>	<u>-</u>	<u>6,551</u>
TOTAL DISBURSEMENTS	<u>146,543</u>	<u>2,626</u>	<u>149,169</u>
Receipts Over (Under) Disbursements	8,384	(2,626)	5,758
Fund Balance - January 1	<u>88,602</u>	<u>3,455</u>	<u>92,057</u>
Fund Balance - December 31	<u>\$ 96,986</u>	<u>\$ 829</u>	<u>\$ 97,815</u>

See Notes to the Basic Financial Statements

CITY OF SHELLY, MINNESOTA
STATEMENT OF BALANCES ARISING FROM CASH TRANSACTIONS
PROPRIETARY FUNDS
DECEMBER 31, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
ASSETS					
Current Assets					
Cash and investments	\$352,426	\$ 47,878	\$ 96,153	\$ 4,467	\$ 500,924
Restricted Assets					
Cash and investments	<u>-</u>	<u>-</u>	<u>49,167</u>	<u>-</u>	<u>49,167</u>
TOTAL ASSETS	<u><u>\$352,426</u></u>	<u><u>\$ 47,878</u></u>	<u><u>\$ 145,320</u></u>	<u><u>\$ 4,467</u></u>	<u><u>\$ 550,091</u></u>
NET CASH POSITION					
Restricted for improvements	\$ -	\$ -	\$ 124,167	\$ -	\$ 124,167
Unrestricted (deficit)	<u>352,426</u>	<u>47,878</u>	<u>21,153</u>	<u>4,467</u>	<u>425,924</u>
TOTAL NET CASH POSITION	<u><u>\$352,426</u></u>	<u><u>\$ 47,878</u></u>	<u><u>\$ 145,320</u></u>	<u><u>\$ 4,467</u></u>	<u><u>\$ 550,091</u></u>

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, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
OPERATING RECEIPTS					
Charges for services	\$212,538	\$ 32,634	\$ 44,223	\$ 18,670	\$ 308,065
OPERATING DISBURSEMENTS					
Contract services	-	-	400	20,684	21,084
Salaries and fringes	52,862	-	-	-	52,862
Maintenance and repairs	31,726	6,105	10,997	-	48,828
Permits and licenses	-	1,626	-	-	1,626
Testing and sampling	-	-	1,135	-	1,135
Chemicals	-	3,885	-	-	3,885
Wheeling and power	97,827	1,866	2,185	-	101,878
Office	12,930	630	575	-	14,135
Other	31,160	23	215	-	31,398
Total Operating Disbursements	<u>226,505</u>	<u>14,135</u>	<u>15,507</u>	<u>20,684</u>	<u>276,831</u>
Operating Income (Loss)	(13,967)	18,499	28,716	(2,014)	31,234
NONOPERATING RECEIPTS (DISBURSEMENTS)					
Interest earnings	1,451	2	9	-	1,462
Interest expense and fees	-	(759)	(8,757)	-	(9,516)
Net Nonoperating Receipts (Disbursements)	<u>1,451</u>	<u>(757)</u>	<u>(8,748)</u>	<u>-</u>	<u>(8,054)</u>
Net Income (Loss)	(12,516)	17,742	19,968	(2,014)	23,180
Debt Principal	-	(19,300)	(7,000)	-	(26,300)
Change in Net Cash Position	(12,516)	(1,558)	12,968	(2,014)	(3,120)
Net Cash Position, January 1	<u>364,942</u>	<u>49,436</u>	<u>132,352</u>	<u>6,481</u>	<u>553,211</u>
Net Cash Position, December 31	<u>\$352,426</u>	<u>\$ 47,878</u>	<u>\$ 145,320</u>	<u>\$ 4,467</u>	<u>\$ 550,091</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, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 212,538	\$ 32,634	\$ 44,223	\$ 18,670	\$ 308,065
Payments to suppliers	(173,643)	(14,135)	(15,507)	(20,684)	(223,969)
Payments to employees	<u>(52,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,862)</u>
Net Cash Provided (Used) by Operating Activities	<u>(13,967)</u>	<u>18,499</u>	<u>28,716</u>	<u>(2,014)</u>	<u>31,234</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest paid on bonds	-	(759)	(8,757)	-	(9,516)
Debt principal payments made	<u>-</u>	<u>(19,300)</u>	<u>(7,000)</u>	<u>-</u>	<u>(26,300)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(20,059)</u>	<u>(15,757)</u>	<u>-</u>	<u>(35,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	<u>1,451</u>	<u>2</u>	<u>9</u>	<u>-</u>	<u>1,462</u>
Net Increase (Decrease) in Cash	(12,516)	(1,558)	12,968	(2,014)	(3,120)
Cash Balance, January 1	<u>364,942</u>	<u>49,436</u>	<u>132,352</u>	<u>6,481</u>	<u>553,211</u>
Cash Balance, December 31	<u>\$ 352,426</u>	<u>\$ 47,878</u>	<u>\$ 145,320</u>	<u>\$ 4,467</u>	<u>\$ 550,091</u>
Cash Balance:					
Current	\$ 352,426	\$ 47,878	\$ 96,153	\$ 4,467	\$ 500,924
Restricted	<u>-</u>	<u>-</u>	<u>49,167</u>	<u>-</u>	<u>49,167</u>
	<u>\$ 352,426</u>	<u>\$ 47,878</u>	<u>\$ 145,320</u>	<u>\$ 4,467</u>	<u>\$ 550,091</u>

See Notes to the Basic Financial Statements

CITY OF SHELLY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021, the City's carrying amount of deposits was \$647,906 and the bank balance was \$658,135. 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 \$500,000.

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, 2021

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, 2021

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. 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/.

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state Legislature. In 2021, Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary. The City of Shelly makes annual contributions to the pension plans equal to the amount required by state statutes. In 2021, the City of Shelly was required to contribute 7.5 percent for Coordinated Plan members.

The City of Shelly's contributions to the General Employees Fund for the years ended December 31, 2021, 2020 and 2019 were \$6,563, \$5,884, and \$5,801, respectively.

NOTE 4 EXCESS EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the General Fund for the year ended December 31, 2021, by \$21,072.

CITY OF SHELLY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

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 experience 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 sewer fund has a general obligation revenue bond with a balance of \$347,000 as of December 31, 2021, a maturity date of January 1, 2050 and 3.75% interest rate. The City makes annual payments on this bond.

NOTE 7 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often

CITY OF SHELLY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

CITY OF SHELLY, MINNESOTA
NOTES TO THE BASIC FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2021

Management has not yet determined the effect these Statements will have on the City's financial statements.

NOTE 8 SUBSEQUENT EVENTS

During February and March 2022, the City experienced a water main breakage and the water tower froze. The City incurred substantial repair costs, submitted an insurance claim and received insurance proceeds of \$13,000.

Subsequent events have been evaluated through May 10, 2022, which is the date these financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

CITY OF SHELLY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021

	Original and Final Budget Amounts	Actual Amounts	Final Budget to Actual
RECEIPTS			
Property taxes	\$ 26,500	\$ 25,984	\$ (516)
Intergovernmental:			
Local	2,203	2,203	-
State:			
Local governmental aid	63,465	63,465	-
Market value credit aid	178	-	(178)
Small cities assistance	-	13,011	13,011
Other state aid	14,830	16,265	1,435
Federal:	-	9,781	9,781
Total Intergovernmental	<u>80,676</u>	<u>104,725</u>	<u>24,049</u>
Other:			
Fire contracts and calls	8,000	7,642	(358)
Licenses and permits	100	75	(25)
Rental	6,091	5,672	(419)
Interest	500	12	(488)
Other	3,800	10,817	7,017
Total Other	<u>18,491</u>	<u>24,218</u>	<u>5,727</u>
 TOTAL RECEIPTS	 <u>125,667</u>	 <u>154,927</u>	 <u>29,260</u>
DISBURSEMENTS			
General government:			
Mayor and council	3,241	4,312	(1,071)
City Clerk-Treasurer	15,250	14,611	639
Assessing	1,250	1,237	13
Insurance	5,000	4,945	55
Legal and audit	4,500	4,269	231
City hall	9,450	21,596	(12,146)
Other	900	148	752
Total General Government	<u>39,591</u>	<u>51,118</u>	<u>(11,527)</u>
Public Safety and Welfare:			
Fire	27,510	34,209	(6,699)
Pest control	1,920	1,978	(58)
Total Public Safety and Welfare	<u>29,430</u>	<u>36,187</u>	<u>(6,757)</u>

CITY OF SHELLY, MINNESOTA
BUDGETARY COMPARISON SCHEDULE – CASH BASIS
GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Final Budget to Actual</u>
Streets and Highways:			
Maintenance	\$ 40,450	\$ 45,128	\$ (4,678)
Total Streets and Highways	<u>40,450</u>	<u>45,128</u>	<u>(4,678)</u>
Culture and Recreation:			
Park	5,350	4,493	857
Community building	<u>4,800</u>	<u>3,066</u>	<u>1,734</u>
Total Culture and Recreation	<u>10,150</u>	<u>7,559</u>	<u>2,591</u>
Other:			
Real estate taxes	2,100	1,602	498
Post office building	<u>3,750</u>	<u>4,949</u>	<u>(1,199)</u>
Total Other	<u>5,850</u>	<u>6,551</u>	<u>(701)</u>
TOTAL DISBURSEMENTS	<u>125,471</u>	<u>146,543</u>	<u>(21,072)</u>
Receipts Over (Under) Disbursements	196	8,384	8,188
Beginning Fund Balance	<u>88,602</u>	<u>88,602</u>	<u>-</u>
Ending Fund Balance	<u>\$ 88,798</u>	<u>\$ 96,986</u>	<u>\$ 8,188</u>

CITY OF SHELLY, MINNESOTA
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED DECEMBER 31, 2021

<u>Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Balance January 1, 2021</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2021</u>
Revenue Bonds							
G.O. Water Revenue Bonds	5.0%	1/1/1994	1/1/2024	\$ 19,300	\$ -	\$ 19,300	\$ -
G.O. Sewer Revenue Bonds 2010A	3.75%	12/1/2010	1/1/2050	<u>354,000</u>	<u>-</u>	<u>7,000</u>	<u>347,000</u>
Total Indebtedness				<u>\$ 373,300</u>	<u>\$ -</u>	<u>\$ 26,300</u>	<u>\$ 347,000</u>

CITY OF SHELLY, MINNESOTA
SCHEDULE OF ADDITIONAL INFORMATION
AS OF DECEMBER 31, 2021

SCHEDULE OF ACCOUNTS RECEIVABLE

Fund	Source of Revenue and Purpose	Amount
Electric, Water, Sewer & Garbage	Customer user fees	<u>\$ 25,937</u>

SCHEDULE OF ACCOUNTS PAYABLE

Fund	Vendor Name	Item or Purpose	Amount
Electric, Water, Sewer & Garbage	Internal Revenue Service	payroll taxes	\$ 1,442
	MN PERA	PERA employer contribution	490
	Payroll - December	payroll wages	2,763
	MN Department of Revenue	payroll taxes	287
	MN Department of Revenue	sales tax	1,168
	Halstad Telephone	telephone	685
	Electric	Otter Tail Power	purchased power
WAPA		purchased power	4,331
Sweeney Controls Company		project work	4,609
Garbage	Fuch's Sanitation Service	garbage service	<u>1,230</u>
			<u>\$ 23,685</u>

CITY OF SHELLY, MINNESOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
ASSETS					
Current Assets					
Cash and investments	\$ 352,426	\$ 47,878	\$ 96,153	\$ 4,467	\$ 500,924
Restricted Assets					
Cash and investments	-	-	49,167	-	49,167
Capital Assets	261,312	568,929	2,153,423	-	2,983,664
Accumulated depreciation	<u>(207,636)</u>	<u>(513,773)</u>	<u>(712,644)</u>	<u>-</u>	<u>(1,434,053)</u>
Net Capital Assets	<u>53,676</u>	<u>55,156</u>	<u>1,440,779</u>	<u>-</u>	<u>1,549,611</u>
TOTAL ASSETS	<u>\$ 406,102</u>	<u>\$ 103,034</u>	<u>\$ 1,586,099</u>	<u>\$ 4,467</u>	<u>\$ 2,099,702</u>
LIABILITIES					
Current Liabilities					
Bonds payable	\$ -	\$ -	\$ 7,000	\$ -	\$ 7,000
Noncurrent Liabilities					
Bonds payable	<u>-</u>	<u>-</u>	<u>340,000</u>	<u>-</u>	<u>340,000</u>
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 347,000</u>	<u>\$ -</u>	<u>\$ 347,000</u>
NET POSITION					
Net investment in capital assets	\$ 53,676	\$ 55,156	\$ 1,093,779	\$ -	\$ 1,202,611
Restricted for improvements	-	-	124,167	-	124,167
Unrestricted	<u>352,426</u>	<u>47,878</u>	<u>21,153</u>	<u>4,467</u>	<u>425,924</u>
TOTAL NET POSITION	<u>\$ 406,102</u>	<u>\$ 103,034</u>	<u>\$ 1,239,099</u>	<u>\$ 4,467</u>	<u>\$ 1,752,702</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, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
OPERATING REVENUES					
Charges for services	\$ 212,538	\$ 32,634	\$ 44,223	\$ 18,670	\$ 308,065
OPERATING EXPENSES					
Contract services	-	-	400	20,684	21,084
Salaries and fringes	52,862	-	-	-	52,862
Maintenance and repairs	31,726	6,105	10,997	-	48,828
Permits and licenses	-	1,626	-	-	1,626
Testing and sampling	-	-	1,135	-	1,135
Chemicals	-	3,885	-	-	3,885
Wheeling and power	97,827	1,866	2,185	-	101,878
Office	12,930	630	575	-	14,135
Depreciation	9,807	5,457	55,686	-	70,950
Other	31,160	23	215	-	31,398
Total Operating Expenses	<u>236,312</u>	<u>19,592</u>	<u>71,193</u>	<u>20,684</u>	<u>347,781</u>
Operating Income (Loss)	(23,774)	13,042	(26,970)	(2,014)	(39,716)
NONOPERATING REVENUES (EXPENSES)					
Interest earnings	1,451	2	9	-	1,462
Interest expense and bond fees	-	(759)	(8,757)	-	(9,516)
Net Nonoperating Revenues (Expenses)	<u>1,451</u>	<u>(757)</u>	<u>(8,748)</u>	<u>-</u>	<u>(8,054)</u>
Net Income (Loss)	(22,323)	12,285	(35,718)	(2,014)	(47,770)
Net Position, January 1	<u>428,425</u>	<u>90,749</u>	<u>1,274,817</u>	<u>6,481</u>	<u>1,800,472</u>
Net Position, December 31	<u>\$ 406,102</u>	<u>\$ 103,034</u>	<u>\$ 1,239,099</u>	<u>\$ 4,467</u>	<u>\$ 1,752,702</u>

CITY OF SHELLY, MINNESOTA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 212,538	\$ 32,634	\$ 44,223	\$ 18,670	\$ 308,065
Payments to suppliers	(173,643)	(14,135)	(15,507)	(20,684)	(223,969)
Payments to employees	<u>(52,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,862)</u>
Net Cash Provided (Used) by Operating Activities	<u>(13,967)</u>	<u>18,499</u>	<u>28,716</u>	<u>(2,014)</u>	<u>31,234</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Interest paid on bonds	-	(759)	(8,757)	-	(9,516)
Bond principal paid	<u>-</u>	<u>(19,300)</u>	<u>(7,000)</u>	<u>-</u>	<u>(26,300)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>(20,059)</u>	<u>(15,757)</u>	<u>-</u>	<u>(35,816)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	<u>1,451</u>	<u>2</u>	<u>9</u>	<u>-</u>	<u>1,462</u>
Net Increase (Decrease) in Cash	(12,516)	(1,558)	12,968	(2,014)	(3,120)
Cash Balance, January 1	<u>364,942</u>	<u>49,436</u>	<u>132,352</u>	<u>6,481</u>	<u>553,211</u>
Cash Balance, December 31	<u>\$ 352,426</u>	<u>\$ 47,878</u>	<u>\$ 145,320</u>	<u>\$ 4,467</u>	<u>\$ 550,091</u>
Cash Balance:					
Current	\$ 352,426	\$ 47,878	\$ 96,153	\$ 4,467	\$ 500,924
Restricted	<u>-</u>	<u>-</u>	<u>49,167</u>	<u>-</u>	<u>49,167</u>
	<u>\$ 352,426</u>	<u>\$ 47,878</u>	<u>\$ 145,320</u>	<u>\$ 4,467</u>	<u>\$ 550,091</u>
<u>Reconciliation of Operating Income to Net Cash</u>					
<u>Provided (Used) by Operating Activities:</u>					
Operating income (loss)	\$ (23,774)	\$ 13,042	\$ (26,970)	\$ (2,014)	\$ (39,716)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	<u>9,807</u>	<u>5,457</u>	<u>55,686</u>	<u>-</u>	<u>70,950</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (13,967)</u>	<u>\$ 18,499</u>	<u>\$ 28,716</u>	<u>\$ (2,014)</u>	<u>\$ 31,234</u>

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Honorable Mayor and City Council
City of Shelly
Shelly, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2021, 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 10, 2022. 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 – bid laws, depositories of public funds and public 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.
GRAND FORKS, NORTH DAKOTA

May 10, 2022

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

To the Honorable Mayor and City Council
City of Shelly
Shelly, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Shelly as of and for the year ended December 31, 2021, 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 10, 2022. Our report disclosed that, as described in Note 1 to the financial statements, the City 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.

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 entity's financial statements will not be prevented, or detected and corrected on timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 that we consider to be material weaknesses.

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 and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

May 10, 2022

CITY OF SHELLY, MINNESOTA
SCHEDULE OF FINDINGS
DECEMBER 31, 2021

FINDING 2021-001 (Material Weakness)

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

Condition: There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keepings and reconciliation.

Cause: The City is subject to size and budget constraints limiting the number of personnel within the municipality to perform accounting duties.

Effect: The design of internal control over financial reporting could adversely affect the ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation: We recommend the City review their internal controls over the accounting functions to determine if additional procedures can be implemented that are cost effective. The City Council should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by City Council members with knowledge of current operations.

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, 2021

FINDING 2021-002 (Material Weakness)

Criteria: An appropriate system of internal controls requires the City to identify all journal entries required to maintain a general ledger and prepare financial statements in compliance with the cash basis of accounting.

Condition: The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city council. However, the City currently does not prepare the financial statements, including the accompanying note disclosures, as required by the cash basis of accounting. The City also does not have the internal resources to identify all journal entries required to maintain the general ledger on the cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause: The City elected to not allocate resources for the preparation of the financial statements and address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the cash basis of accounting.

Effect: There is an increased risk of material misstatement to the City's financial statements. The City's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation: We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the City should establish an internal control policy to document the annual review of the financial statements and to review the financial statements disclosure checklist. The City personnel will need to determine the proper balance in each general ledger account prior to the audit.

View of Responsible Officials: The City agrees with the recommendation and will review on an annual basis.

CITY OF SHELLY, MINNESOTA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2021

FINDING 2021-001 (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 – Immediately

FINDING 2021-002 (Material Weakness)

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 – Immediately