



Annual Financial Report

City of Lambertton

Lamberton, Minnesota

For the year ended December 31, 2021



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Annual Financial Report
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INTRODUCTORY SECTION

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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City of Lambertton
Elected and Appointed Officials
For the Year Ended December 31, 2021

Elected

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lydell Sik	Mayor	12/31/22
Dave Irlbeck	Council	12/31/22
Julie Senst	Council	12/31/22
Darrell Knutson	Council	12/31/24
Tyler Beermann	Council	12/31/24

Appointed

Nick Anderson	Interim Administrator
Scott Hammerschmidt	City Assessor

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FINANCIAL SECTION
CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Lamberton, Minnesota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Lamberton, Minnesota (the City), 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.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements of the governmental funds referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of each fund of the City, as of December 31, 2021, and their respective cash receipts and disbursements, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B. Also, in our opinion, the financial statements of the proprietary funds referred to in the first paragraph present fairly, in all material respects, the respective financial position of each fund of the City, as of December 31, 2021, and their respective changes in financial position and cash flows, for the year then ended, on the basis of the financial reporting provisions the Minnesota Office of the State Auditor as described in Note 1B.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Minnesota Office of the State Auditor. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 of Lambertton's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lambertton'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.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions, the related note disclosures, and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios, starting on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The introductory section and supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2022, on our consideration of the City'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'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.



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Mankato, Minnesota
February 24, 2022



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FINANCIAL STATEMENTS
REGULATORY BASIS

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Lambert, Minnesota
Statement of Balances Arising from Cash Transactions
Governmental Funds
December 31, 2021

	General	Debt Service	410 2019-20 Infrastrucuture	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and Temporary Investments	<u>\$ 654,683</u>	<u>\$ 704,374</u>	<u>\$ 513,025</u>	<u>\$ 364,664</u>	<u>\$ 2,236,746</u>
Cash Fund Balances					
Restricted for					
Debt service	\$ -	\$ 704,374	\$ -	\$ -	\$ 704,374
Economic development	-	-	-	117,900	117,900
Capital projects	-	-	513,025	-	513,025
American Rescue Plan Act	41,964	-	-	-	41,964
Assigned					
Economic development	-	-	-	82,834	82,834
Capital reserve for future projects	-	-	-	163,930	163,930
Unassigned	<u>612,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>612,719</u>
Total Cash Fund Balances	<u>\$ 654,683</u>	<u>\$ 704,374</u>	<u>\$ 513,025</u>	<u>\$ 364,664</u>	<u>\$ 2,236,746</u>

The notes to the financial statements are an integral part of this statement.

City of Lambertton, Minnesota
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances
Governmental Funds
For the Year Ended December 31, 2021

	General	Debt Service	410 2019-20 Infrastructure	Nonmajor Funds	Total Governmental Funds
Receipts					
Taxes	\$ 420,601	\$ 358,164	\$ -	\$ -	\$ 778,765
Special assessments	-	85,740	-	-	85,740
Licenses and permits	4,965	-	-	-	4,965
Intergovernmental	478,379	-	16,528	106,316	601,223
Charges for services	180,534	-	-	8,278	188,812
Fines and forfeits	533	8,426	-	-	8,959
Investment earnings	455	142	53	174	824
Loan payments	-	-	-	25,576	25,576
Miscellaneous	82,177	-	-	-	82,177
Total Receipts	<u>1,167,644</u>	<u>452,472</u>	<u>16,581</u>	<u>140,344</u>	<u>1,777,041</u>
Disbursements					
Current					
General government	149,782	-	-	-	149,782
Public safety	254,049	-	-	-	254,049
Public works	112,076	-	-	-	112,076
Culture and recreation	217,281	-	-	-	217,281
Economic development	-	-	-	133,965	133,965
Clinic	3,986	-	-	-	3,986
Community Center	10,531	-	-	-	10,531
Capital outlay					
Public safety	174,043	-	-	-	174,043
Public works	61,745	-	138,366	31,696	231,807
Culture and recreation	10,890	-	-	-	10,890
Debt service					
Principal	-	773,000	-	-	773,000
Interest and other costs	-	185,862	-	-	185,862
Total Disbursements	<u>994,383</u>	<u>958,862</u>	<u>138,366</u>	<u>165,661</u>	<u>2,257,272</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>173,261</u>	<u>(506,390)</u>	<u>(121,785)</u>	<u>(25,317)</u>	<u>(480,231)</u>
Other Financing Sources (Uses)					
Bond issued	-	490,000	-	-	490,000
Bond premium	-	13,642	-	-	13,642
Transfers in	-	-	-	100,500	100,500
Sale of capital assets	5,399	-	-	-	5,399
Transfers out	(95,500)	-	-	(5,000)	(100,500)
Total Other Financing Sources (Uses)	<u>(90,101)</u>	<u>503,642</u>	<u>-</u>	<u>95,500</u>	<u>509,041</u>
Net Change in Cash Fund Balances	83,160	(2,748)	(121,785)	70,183	28,810
Cash Fund Balances, January 1	<u>571,523</u>	<u>707,122</u>	<u>634,810</u>	<u>294,481</u>	<u>2,207,936</u>
Cash Fund Balances, December 31	<u>\$ 654,683</u>	<u>\$ 704,374</u>	<u>\$ 513,025</u>	<u>\$ 364,664</u>	<u>\$ 2,236,746</u>

The notes to the financial statements are an integral part of this statement.

City of Lamberton, Minnesota
Statement of Net Position
Proprietary Funds
December 31, 2021

Business-type Activities -
Enterprise Funds

	601	602	617	603	
	Water Utility	Sanitary Sewer Utility	Storm Sewer	Nonmajor Refuse	Totals
Assets					
Current Assets					
Cash and temporary investments	\$ 396,440	\$ 96,928	\$ 33,206	\$ 22,588	\$ 549,162
Receivables					
Accounts	21,095	20,207	8,126	4,025	53,453
Special assessments	14,717	1,136	-	-	15,853
Total Current Assets	<u>432,252</u>	<u>118,271</u>	<u>41,332</u>	<u>26,613</u>	<u>618,468</u>
Noncurrent Assets					
Special assessments receivable - net of current portion	222,223	37,477	-	-	259,700
Capital assets, not being depreciated					
Land	9,438	25,618	-	-	35,056
Capital assets, depreciated					
Distribution plant	1,222,573	1,810,806	-	-	3,033,379
Infrastructure and other improvements	958,365	466,705	1,395,919	-	2,820,989
Machinery and equipment	178,639	31,276	-	-	209,915
Total capital assets, at cost	2,369,015	2,334,405	1,395,919	-	6,099,339
Less accumulated depreciation	(786,443)	(792,799)	(202,488)	-	(1,781,730)
Total capital assets (net of accumulated depreciation)	<u>1,582,572</u>	<u>1,541,606</u>	<u>1,193,431</u>	<u>-</u>	<u>4,317,609</u>
Total Noncurrent Assets	<u>1,804,795</u>	<u>1,579,083</u>	<u>1,193,431</u>	<u>-</u>	<u>4,577,309</u>
Total Assets	<u>2,237,047</u>	<u>1,697,354</u>	<u>1,234,763</u>	<u>26,613</u>	<u>5,195,777</u>
Deferred Outflows of Resources					
Deferred pension resources	15,391	11,401	-	891	27,683
Liabilities					
Current Liabilities					
Accounts payable	1,377	185	29	627	2,218
Accrued interest payable	4,697	11,875	2,475	-	19,047
Customer deposits	7,593	-	-	-	7,593
Accrued wages payable	1,538	1,116	-	94	2,748
Bonds payable - current portion	42,200	84,300	52,800	-	179,300
Total Current Liabilities	<u>57,405</u>	<u>97,476</u>	<u>55,304</u>	<u>721</u>	<u>210,906</u>
Noncurrent Liabilities					
Bonds payable - long-term portion	373,500	1,292,318	223,200	-	1,889,018
Net pension liability	21,722	16,092	-	1,258	39,072
Total Noncurrent Liabilities	<u>395,222</u>	<u>1,308,410</u>	<u>223,200</u>	<u>1,258</u>	<u>1,928,090</u>
Total Liabilities	<u>452,627</u>	<u>1,405,886</u>	<u>278,504</u>	<u>1,979</u>	<u>2,138,996</u>
Deferred Inflows of Resources					
Deferred pension resources	19,901	14,742	-	1,152	35,795
Net Position					
Net investment in capital assets	1,166,872	164,988	917,431	-	2,249,291
Unrestricted	613,038	123,139	38,828	24,373	799,378
Total Net Position	<u>\$ 1,779,910</u>	<u>\$ 288,127</u>	<u>\$ 956,259</u>	<u>\$ 24,373</u>	<u>\$ 3,048,669</u>

The notes to the financial statements are an integral part of this statement.

City of Lamberton, Minnesota
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				Totals
	601 Water Utility	602 Sanitary Sewer Utility	617 Storm Sewer	603 Nonmajor Refuse	
Operating Revenues					
Charges for services	\$ 202,984	\$ 186,042	\$ 79,756	\$ 23,317	\$ 492,099
Miscellaneous	5,100	39	-	3	5,142
Total Operating Revenues	<u>208,084</u>	<u>186,081</u>	<u>79,756</u>	<u>23,320</u>	<u>497,241</u>
Operating Expenses					
Personal services	47,682	42,613	-	2,741	93,036
Supplies	12,335	17,988	2,592	1,368	34,283
Utilities	14,621	-	-	-	14,621
Other services and charges	8,310	10,232	1,765	12,702	33,009
Depreciation	57,892	56,055	33,705	-	147,652
Total Operating Expenses	<u>140,840</u>	<u>126,888</u>	<u>38,062</u>	<u>16,811</u>	<u>322,601</u>
Operating Income (Loss)	<u>67,244</u>	<u>59,193</u>	<u>41,694</u>	<u>6,509</u>	<u>174,640</u>
Nonoperating Revenues (Expenses)					
Special assessments	9,713	3,713	-	-	13,426
Investment earnings	53	23	20	10	106
Other	208	-	-	-	208
Amortization	-	(27,000)	-	-	(27,000)
Bond issuance costs	-	(32,092)	-	-	(32,092)
Interest and fiscal charges	(12,312)	(35,729)	(9,471)	-	(57,512)
Total Nonoperating Revenues (Expenses)	<u>(2,338)</u>	<u>(91,085)</u>	<u>(9,451)</u>	<u>10</u>	<u>(102,864)</u>
Income (Loss) Before Other Financing Sources (Uses)	<u>64,906</u>	<u>(31,892)</u>	<u>32,243</u>	<u>6,519</u>	<u>71,776</u>
Other Financing Sources (Uses)					
Contributed capital	31,112	65,122	(22,890)	-	73,344
Transfers in	15,000	-	-	-	15,000
Transfers out	-	(7,000)	(8,000)	-	(15,000)
Total Other Financing Sources (Uses)	<u>46,112</u>	<u>58,122</u>	<u>(30,890)</u>	<u>-</u>	<u>73,344</u>
Change in Net Position	<u>111,018</u>	<u>26,230</u>	<u>1,353</u>	<u>6,519</u>	<u>145,120</u>
Net Position , January 1	1,625,949	403,954	826,078	17,854	2,873,835
Prior Period Adjustment (See Note 7)	<u>42,943</u>	<u>(142,057)</u>	<u>128,828</u>	<u>-</u>	<u>29,714</u>
Net Position, January 1 as restated (Note 7)	<u>1,668,892</u>	<u>261,897</u>	<u>954,906</u>	<u>17,854</u>	<u>2,903,549</u>
Net Position, December 31	<u>\$ 1,779,910</u>	<u>\$ 288,127</u>	<u>\$ 956,259</u>	<u>\$ 24,373</u>	<u>\$ 3,048,669</u>

The notes to the financial statements are an integral part of this statement.

City of Lamberton, Minnesota
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				Totals
	601	602	617	603	
	Water Utility	Sanitary Sewer Utility	Storm Sewer	Nonmajor Refuse	
Cash Flows from Operating Activities					
Receipts from customers	\$ 208,392	\$ 184,212	\$ 79,236	\$ 21,185	\$ 493,025
Payments to suppliers and vendors	(35,383)	(28,166)	(4,328)	(14,608)	(82,485)
Payments to and on behalf of employees	(53,062)	(39,487)	-	(2,832)	(95,381)
Other receipts	208	-	-	3	211
Net Cash Provided (Used) by Operating Activities	<u>120,155</u>	<u>116,559</u>	<u>74,908</u>	<u>3,748</u>	<u>315,370</u>
Cash Flows from Noncapital Financing Activities					
Transfers from other funds	15,000	-	-	-	15,000
Transfers to other funds	-	(7,000)	(8,000)	-	(15,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>15,000</u>	<u>(7,000)</u>	<u>(8,000)</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition of capital assets	(30,369)	(1,019)	-	-	(31,388)
Special assessments	31,494	4,224	-	-	35,718
Bond proceeds received	-	1,242,718	-	-	1,242,718
Bond principal	(41,000)	(1,289,200)	(52,800)	-	(1,383,000)
Bond issuance costs	-	(32,092)	-	-	(32,092)
Interest paid on long term debt	(12,370)	(40,120)	(6,996)	-	(59,486)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(52,245)</u>	<u>(115,489)</u>	<u>(59,796)</u>	<u>-</u>	<u>(227,530)</u>
Cash Flows from Investing Activities					
Interest received on cash and investments	53	23	20	10	106
Net Increase (Decrease) in Cash and Temporary Investments	82,963	(5,907)	7,132	3,758	87,946
Cash and Temporary Investments, January 1	<u>313,477</u>	<u>102,835</u>	<u>26,074</u>	<u>18,830</u>	<u>461,216</u>
Cash and Temporary Investments, December 31	<u>\$ 396,440</u>	<u>\$ 96,928</u>	<u>\$ 33,206</u>	<u>\$ 22,588</u>	<u>\$ 549,162</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 67,244	\$ 59,193	\$ 41,694	\$ 6,509	\$ 174,640
Adjustments to reconcile excess of operating income (loss) to net cash provided (used) by operating activities					
Other income related to operations	208	-	-	-	208
Depreciation	57,892	56,055	33,705	-	147,652
(Increase) decrease in deferred outflows of resources					
Deferred pension resources	(11,584)	(9,452)	-	(685)	(21,721)
(Increase) decrease in deferred inflows of resources					
Deferred pension resources	18,194	13,870	-	1,061	33,125
Changes in assets and liabilities					
(Increases) decreases in assets					
Accounts receivable	(2,658)	(1,869)	(520)	(1,538)	(6,585)
Increases (decreases) in liabilities					
Accounts payable	135	54	29	(538)	(320)
Due to other governments	(252)	-	-	-	(252)
Accrued wages payable	(219)	(236)	-	94	(361)
Customer deposits	2,966	-	-	(594)	2,372
Net pension liability	(11,771)	(1,056)	-	(561)	(13,388)
Net Cash Provided (Used) by Operating Activities	<u>\$ 120,155</u>	<u>\$ 116,559</u>	<u>\$ 74,908</u>	<u>\$ 3,748</u>	<u>\$ 315,370</u>
Schedule of Noncash Capital and Related Financing Activities					
Increase (decrease) in fair value of investments					
Capital assets contributed by (to) from other funds	<u>\$ 31,112</u>	<u>\$ 65,122</u>	<u>\$ (22,890)</u>	<u>\$ -</u>	<u>\$ 73,344</u>
Amortization of charge on refunding	<u>\$ -</u>	<u>\$ 27,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,000</u>

The notes to the financial statements are an integral part of this statement.

City of Lamberton
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Lamberton, Minnesota, (the City) is a municipal corporation governed by an elected Mayor and four-member Council. The Council exercises legislative authority and determines all matters of policy. The Council appoints personnel responsible for the proper administration of all affairs relating to the City. The City has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The City has no component units that meet the GASB criteria.

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

The accompanying financial statements have been prepared on the regulatory basis of accounting as described in the *Minnesota Office of the State Auditor's Reporting and Publishing Requirements for Cities under 2,500 in Population* published in February 2016. Under that basis, receipts are recognized when received rather than when measurable and available, and disbursements are recognized when paid rather than when the obligation is incurred. That basis differs from accounting principles generally accepted in the United States of America primarily because the City has not reported a management discussion and analysis letter, government-wide statement of net position and government-wide statement of activities and the City does not recognize governmental fund receipts and disbursements in accordance with the modified accrual basis of accounting.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The City has the following fund types:

Governmental funds are used to account for the City's general government activities and are accounted for using the regulatory basis of accounting. Their revenue is recognized when received in cash and expenditures are recognized when paid in cash. The regulatory basis of accounting is a special purpose framework other than GAAP. Under GAAP, governmental funds use the modified accrual method of accounting. The difference between the regulatory basis and modified accrual basis of accounting is that under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

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

The *Debt Service fund* accounts for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources and special assessment bond principal and interest from special assessment levies when the City is obligated in some manner of payment.

The *2019-20 Infrastructure fund* accounts for all costs associated with the 2019-20 infrastructure capital project.

The City reports the following major proprietary funds:

The *Water Utility enterprise fund* accounts for costs associated with the City's water system and to ensure that user charges are sufficient to pay for those costs.

The *Sanitary Sewer Utility enterprise fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

The *Storm Sewer Utility enterprise fund* accounts for the costs associated with the City's sewer system and to ensure that user charges are sufficient to pay for those costs.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of receipts, costs incurred and/or net income is necessary for management accountability.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. The City also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On the regulatory basis, receipts from property taxes are recognized in the year the tax is collected. Receipts from grants, entitlements and donations are recognized in the year in which they are collected. For proprietary funds, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when the use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Note 1: Summary of Significant Accounting Policies (Continued)

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The proprietary funds' portion in the cash and temporary investments pool is considered to be cash and cash equivalents for purposes of the statements of cash flows.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The City may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better, revenue obligations rated "AA" or better.
4. General Obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. 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.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

The Council annually adopts a tax levy and certifies it to the County in December for collection the following year. The County is responsible for collecting all property taxes for the City. These taxes attach an enforceable lien on taxable property within the City on January 1 and are payable by the property owners in two installments. The taxes are collected by the County Treasurer and tax settlements are made to the City during January, June and November each year.

Taxes payable on homestead property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the City by the State of Minnesota (the State) in lieu of taxes levied against the homestead property. The State remits this credit in two equal installments in October and December each year.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. The City annually certifies delinquent water and sewer accounts to the County for collection. As a result, there is no allowance for uncollectible accounts.

Special Assessments

Special assessments are recognized as revenue when they are certified in the enterprise funds. They are recorded upon receipt in the Governmental funds.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Capital Assets

Under the regulatory basis, the City does not account for capital assets used in governmental fund types.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in enterprise funds. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the financial statements regardless of their amount.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year.

As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at acquisition cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the City values these capital assets at the acquisition value of the item at the date of its donation.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Property, plant, and equipment of the proprietary funds of the City are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Lift Stations	50
Watermains, Sewermains	40
Sump Pump Lines	40
Buildings	40
Concrete Curb and Gutter	30
Sidewalks	30
Well and Pump houses	25
Water Meters	20
Office Equipment	10
Computer Equipment & Software	5
Vehicles	5
Machinery, Equipment, Radio Phones	10
Land	Not Depreciated

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualifies for reporting in this category. Accordingly, the items, deferred charges on refunding and deferred pension resources, are reported only in the statements of net position. The deferred pension resource item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Long-term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable proprietary fund type statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service disbursements. Accordingly, the item, *unavailable* revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

The City has an additional item which qualifies for reporting in this category.

Note 1: Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the General Employee Plan (GERP) is \$711.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category.

The item, deferred pension resources, is reported only in the statements of net position and results from actuarial calculations.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by State statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council (the Council), which is the City's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Council modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Council itself or by an official to which the governing body delegates the authority. The Council has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the City Clerk/Treasurer.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The City considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has formally adopted a fund balance policy for the General fund. The City's policy is to maintain a minimum unassigned fund balance of 50 percent of budgeted operating expenditures for cash-flow timing needs.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position represents the difference between assets and liabilities. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consists of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America for the General fund. All annual appropriations lapse at fiscal year-end. The City does not use encumbrance accounting.

In August of each year, all departments of the City submit requests for appropriations to the Clerk/Treasurer so that a budget may be prepared. Before September 30, the proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is prepared and adopted in early December.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Clerk/Treasurer. The legal level of budgetary control is the department level. Budgeted amounts are as originally adopted, or as amended by the Council.

B. Excess of Expenditures Over Appropriations

For the year ended December 31, 2021, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess of Disbursements Over Appropriations
General	\$ 923,827	\$ 994,383	\$ 70,556

These excess expenditures were funded by excess fund balance and greater than anticipated revenues.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the City's deposits and investments may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Council, the City maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The Fair value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the City.

At year end, the City's carrying amount of deposits was \$1,171,318 and the bank balance was \$1,310,908. The bank balance was covered by federal depository insurance of \$250,000 and the remaining was collateralized with securities held by the pledging financial institution's trust department in the City's name.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

As of December 31, 2021, the City had the following investments that are insured or registered, or securities held by the City or its agent in the City's name:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount
Pooled Investments at Amortized Costs			
4M Fund	N/A	less than 6 months	<u>\$ 1,614,390</u>

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A Indicates not applicable or available.

Cash on Hand

Cash in the possession of the City, consisting of petty cash and change funds, totals \$200.

Cash and Investments Summary

A reconciliation of cash and investments as shown on the financial statements for the City follows:

Checking	\$ 1,079,885
Certificates of deposit	91,433
Total Carrying Amount of Deposits	<u>1,171,318</u>
Investments	1,614,390
Cash on Hand	<u>200</u>
Total Cash and Investments	<u>\$ 2,785,908</u>
Cash and Temporary Investments	
Governmental	\$ 2,236,746
Proprietary	<u>549,162</u>
Total Cash and Temporary Investments	<u>\$ 2,785,908</u>

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables and Transfers

Interfund transfers for the year ended December 31, 2021 are as follows:

	Transfer in		
	Nonmajor Governmental	Water	Total
Transfer out			
General	\$ 95,500	\$ -	\$ 95,500
Nonmajor			
governmental funds	5,000	-	5,000
Sanitary Sewer Utility	-	7,000	7,000
Nonmajor enterprise	-	8,000	8,000
Total transfers out	<u>\$ 100,500</u>	<u>\$ 15,000</u>	<u>\$ 115,500</u>

Transfers are used to transfer funds into the capital reserve funds for further capital needs.

C. Capital Assets

Capital asset activity for the year ended December 31, 2021 is as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 35,056	\$ -	\$ -	\$ -	\$ 35,056
Construction in progress	1,727,246	49,724	(1,776,970)	-	-
Total capital assets not being depreciated	<u>1,762,302</u>	<u>49,724</u>	<u>(1,776,970)</u>	<u>-</u>	<u>35,056</u>
Capital Assets being Depreciated					
Distribution plant	3,004,029	29,350	-	-	3,033,379
Infrastructure	-	1,776,970	-	1,044,019	2,820,989
Equipment	207,877	2,038	-	-	209,915
Total Capital Assets being Depreciated	<u>3,211,906</u>	<u>1,808,358</u>	<u>-</u>	<u>1,044,019</u>	<u>6,064,283</u>
Less Accumulated Depreciation for					
Distribution plant	(1,230,771)	(75,775)	-	-	(1,306,546)
Infrastructure	-	(64,417)	-	(281,305)	(345,722)
Equipment	(122,002)	(7,460)	-	-	(129,462)
Total Accumulated Depreciation	<u>(1,352,773)</u>	<u>(147,652)</u>	<u>-</u>	<u>(281,305)</u>	<u>(1,781,730)</u>
Total Capital Assets being Depreciated, Net	<u>1,859,133</u>	<u>1,660,706</u>	<u>-</u>	<u>762,714</u>	<u>4,282,553</u>
Business-type Activities					
Capital Assets, Net	<u>\$ 3,621,435</u>	<u>\$ 1,710,430</u>	<u>\$ (1,776,970)</u>	<u>\$ 762,714</u>	<u>\$ 4,317,609</u>

Depreciation expense was charged to functions/programs of the City as follows:

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Depreciation Expense

Business-type Activities

Water	\$ 57,892
Sewer	56,055
Storm Sewer	<u>33,705</u>
 Total Depreciation Expense - Business-type Activities	 <u><u>\$ 147,652</u></u>

D. Long-term Debt

G.O. Special Assessment Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for government and proprietary activities.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
2019A G.O. Improvement Bonds	\$ 4,840,400	3.00 - 3.13 %	06/27/19	02/01/40	\$ 4,658,400
2019B G.O. Refunding Bonds	153,000	2.00 - 2.25	12/17/19	12/01/26	111,000
2021A G.O. Refunding Bonds	490,000	1.40 - 2.00	07/28/21	02/01/29	490,000
Total G.O. Bonds					<u><u>\$ 5,259,400</u></u>

The annual service requirements to amortize general obligation bonds as of December 31, 2021 are as follows:

Year Ending December 31,	G.O. Special Assessment Bonds Governmental Activities		
	Principal	Interest	Total
2022	\$ 287,700	\$ 148,821	\$ 436,521
2023	296,500	140,948	437,448
2024	301,300	132,973	434,273
2025	311,100	124,898	435,998
2026	325,700	116,435	442,135
2027 - 2031	1,204,500	472,648	1,677,148
2032 - 2036	1,326,200	286,888	1,613,088
2037 - 2040	<u>1,206,400</u>	<u>76,241</u>	<u>1,282,641</u>
Total	<u><u>\$ 5,259,400</u></u>	<u><u>\$ 1,499,852</u></u>	<u><u>\$ 6,759,252</u></u>

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Revenue Bonds

General obligation revenue bonds were issued to finance improvements to the water, sewer, and storm sewer system. They will be repaid with transfers from other funds and future utility charges.

Description	Authorized and Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
G.O. Revenue					
Bonds of 2013C	\$ 282,000	2.70 %	06/14/13	02/01/29	\$ 159,000
2019A G.O. Improvement Bonds	3,963,300	3.00 - 3.13	06/27/19	02/01/40	206,600
2019B G.O. Improvement Bonds	632,000	2.00 - 2.25	12/17/19	12/01/26	460,000
2021A G.O. Refunding Bonds	1,230,000	1.40 - 2.50	07/28/21	02/01/41	1,230,000
Total G.O. Revenue Bonds					<u>\$ 2,055,600</u>

Annual revenues from charges for services, principal and interest payments and percentage of revenue required to cover principal and interest payments are as follows:

	Water	Sewer	Storm Sewer
Revenues	\$ 202,984	\$ 186,042	\$ 79,756
Principal and Interest	53,370	1,329,320	59,796
Percentage of Revenues	26.3%	714.5%	75.0%

The annual requirements to amortize general obligation revenue bonds as of December 31, 2021 are as follows:

Year Ending December 31,	G.O. Revenue Bonds		
	Business-type Activities		
	Principal	Interest	Total
2022	\$ 179,300	\$ 44,619	\$ 223,919
2023	183,500	40,665	224,165
2024	183,700	36,825	220,525
2025	188,900	32,651	221,551
2026	193,300	28,323	221,623
2027 - 2031	434,500	102,855	537,355
2032 - 2036	333,800	65,250	399,050
2037 - 2041	358,600	22,905	381,505
Total	<u>\$ 2,055,600</u>	<u>\$ 374,093</u>	<u>\$ 2,429,693</u>

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 3: Detailed Notes on All Funds (Continued)

Changes in General Long-term Liabilities

During the year ended December 31, 2021, the following changes occurred in liabilities reported in general long-term debt:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Prior Period Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities						
Bonds Payable						
General Obligation						
Improvement Bonds	<u>\$ 6,275,400</u>	<u>\$ 490,000</u>	<u>\$ (773,000)</u>	<u>\$ (733,000)</u>	<u>\$ 5,259,400</u>	<u>\$ 287,700</u>
Business-type Activities						
Bonds Payable						
General Obligation						
Revenue Bonds	\$ 1,475,600	\$ 1,230,000	\$ (1,383,000)	\$ 733,000	\$ 2,055,600	\$ 179,300
Bond premium	-	12,718	-	-	12,718	-
Business-type Activity Long-term Liabilities	<u>\$ 1,475,600</u>	<u>\$ 1,242,718</u>	<u>\$ (1,383,000)</u>	<u>\$ 733,000</u>	<u>\$ 2,068,318</u>	<u>\$ 179,300</u>

Note 4: Defined Benefit Pension Plan - Statewide

A. Plan Description

The City participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota statutes*, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

B. Benefits Provided

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

Note 4: Defined Benefit Pension Plan – Statewide (Continued)

General Employee Plan Benefits

General Employee Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. The rates are 2.2 percent and 2.7 percent, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service, and 2.7 percent for Basic members. The accrual rates for former MERF members is 2.0 percent for each of the first 10 years of service and 2.5 percent 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.

Benefit increases are provided to benefit recipients each January. Beginning in 2019, the postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

Minnesota statutes chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent, of their annual covered salary in fiscal year 2021. The City was required to contribute 7.50 percent for Coordinated Plan members in fiscal year 2021. The City's contributions to the General Employees Fund for the years ending December 31, 2021, 2020 and 2019 were \$4,879, \$4,881 and \$3,151, respectively. The City's contributions were equal to the required contributions for each year as set by State statute.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2021, the City reported a liability of \$39,072 for its proportionate share of the General Employees Fund's net pension liability in the enterprise funds. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$1,192. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021 relative to the total employer contributions received from all of PERA's participating employers. The City's proportion was 0.0009 percent which is the same as its proportion measured as of June 30, 2020.

City's proportionate share of the net pension liability	\$ 39,072
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>1,192</u>
Total	<u><u>\$ 40,264</u></u>

For the year ended December 31, 2021, the City recognized pension expense of \$619 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$92 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 233	\$ 1,196
Changes in Actuarial Assumptions	23,856	856
Net Difference Between Projected and Actual Earnings on Plan Investments	1,253	-
Changes in Proportion	-	33,743
Contributions to GERF Subsequent to the Measurement Date	<u>2,341</u>	<u>-</u>
Total	<u><u>\$ 27,683</u></u>	<u><u>\$ 35,795</u></u>

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

The \$2,341 reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$	(747)
2021		(172)
2022		(304)
2023		(9,230)
2024		-
Thereafter		-

E. Actuarial Assumptions

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

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

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service.

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

Actuarial assumptions used in the June 30, 2021 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and become effective with the July 1, 2020 actuarial valuation.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

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

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

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

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 4: Defined Benefit Pension Plan - Statewide (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	33.50 %	5.10 %
Alternative Assets (Private markets)	25.00	5.90
Bonds (Fixed Income)	25.00	0.75
International Equity	<u>16.50</u>	5
Total	<u><u>100.00 %</u></u>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	<u>City Proportionate Share of NPL</u>		
	<u>1 Percent Decrease (5.50%)</u>	<u>Current (6.50%)</u>	<u>1 Percent Increase (7.50%)</u>
General Employees Fund	\$ 79,687	\$ 39,072	\$ 5,745

H. Pension Plan Fiduciary Net Position

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

Note 5: Other Information

A. 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 for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self-sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred but not reported claims.

B. Contingent Liabilities

The City participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the City believes that any disallowed costs as a result of such audits will be immaterial.

C. Legal Debt Margin

In accordance with Minnesota statutes, the City may not incur or be subject to general obligation debt in excess of three percent of the market value of taxable property within the City. General obligation debt is payable solely from ad valorem taxes and therefore, excludes debt financed partially or entirely by special assessments, enterprise fund receipts or tax increments. The City currently has no general obligation debt outstanding subject to this limit.

Note 6: COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the City cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the City's financial condition, liquidity, and future results of its revenue collections is uncertain.

City of Lambertton
Notes to the Financial Statements
December 31, 2021

Note 7: Prior Period Adjustment

The following prior period adjustments were required to fairly state beginning net position.

Fund	December 31, 2021				Net Position January 1, 2021 as Restated
	Net Position December 31, 2020 as Previously Reported	Prior Period Adjustment (1)	Prior Period Adjustment (2)	Prior Period Adjustment (3)	
Business-type Activities					
Water	\$ 1,625,949	\$ 152,543	\$ (109,600)	\$ -	\$ 1,668,892
Sewer	403,954	152,543	(109,600)	(185,000)	261,897
Storm Sewer	826,078	457,628	(328,800)	-	954,906
Nonmajor Refuse	17,854	-	-	-	17,854
Total Business-type Activities	<u>\$ 2,873,835</u>	<u>\$ 762,714</u>	<u>\$ (548,000)</u>	<u>\$ (185,000)</u>	<u>\$ 2,903,549</u>

- (1) To allocate the 2011 Improvement Project to enterprise funds.
- (2) To allocate the 2019B G.O. Improvement Bonds to enterprise funds.
- (3) To correct the previous allocation of the 2013B G.O. Crossover Refunding Bond.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Lamberton, Minnesota
Required Supplementary Information
For the Year Ended December 31, 2019

Schedule of Employer's Share of PERA Net Pension Liability - General Employee Retirement Fund

Required Supplementary Information							
Fiscal Year Ending	City's Proportion of the Net Pension Liability	City's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Total (a+b)	City's Covered Payroll (c)	City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
12/31/20	0.0009 %	\$ 39,072	\$ 1,192	\$ 40,264	\$ 66,294	60.7 %	87.0 %
12/31/19	0.0009	48,465	1,505	49,970	61,720	81.0	80.2
12/31/18	0.0006	34,549	1,091	35,640	41,033	86.9	79.5
12/31/17	0.0006	41,003	518	41,521	40,890	101.5	75.9
12/31/16	0.0006	52,150	672	52,822	40,085	131.8	68.9
12/31/15	0.0006	33,286	-	33,286	40,586	82.0	78.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions - General Employee Retirement Fund

Required Supplementary Information					
Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	City's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
12/31/20	\$ 4,879	\$ 4,879	\$ -	\$ 63,973	7.6 %
12/31/19	4,881	4,881	-	65,088	7.5
12/31/18	3,151	3,151	-	42,009	7.5
12/31/17	3,067	3,067	-	40,890	7.5
12/31/16	3,006	3,006	-	40,085	7.5
12/31/15	3,044	3,044	-	40,586	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

City of Lamberton, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - General Employee Retirement Fund

Changes in actuarial assumptions

2021- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020 - The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

City of Lamberton, Minnesota
Required Supplementary Information (Continued)
For the Year Ended December 31, 2021

Notes to the Required Supplementary Information - General Employee Retirement Fund (Continued)

Changes in plan provisions

2021 - There were no changes in plan provisions since the previous valuation.

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

2019 - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

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

2017 - The state's special funding contribution increased from \$6 million to \$16 million.

2016 - No changes noted.

2015 - On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

COMBINING AND INDIVIDUAL FUND
FINANCIAL SCHEDULES

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Lambert, Minnesota
 Nonmajor Governmental Funds
 Schedule of Balances Arising from Cash Transactions
 Governmental Funds
 December 31, 2021
 (With Comparative Totals for December 31, 2020)

	Nonmajor Special Revenue		Nonmajor Capital Project	Total Nonmajor Governmental Funds
	207 EDA	800 Small Cities Development Grant	400 CIP Improvement Fund	
Assets				
Cash and Temporary Investments	\$ 197,533	\$ 3,201	\$ 163,930	\$ 364,664
Cash Fund Balances				
Restricted				
Economic development	\$ 114,699	\$ 3,201	\$ -	\$ 117,900
Assigned				
Economic development	82,834	-	-	82,834
Capital reserve for future projects	-	-	163,930	163,930
Total Cash Fund Balances	\$ 197,533	\$ 3,201	\$ 163,930	\$ 364,664

City of Lamberton, Minnesota
 Nonmajor Governmental Funds
 Schedule of Cash Receipts, Disbursements
 and Changes in Cash Fund Balances
 Governmental Funds
 For the Year Ended December 31, 2021

	Nonmajor Special Revenue		Nonmajor Capital Project	Total Nonmajor Governmental Funds
	207 EDA	800 Small Cities Development Grant	400 CIP Improvement Fund	
Receipts				
Intergovernmental	\$ -	\$ 106,316	\$ -	\$ 106,316
Charges for services	8,278	-	-	8,278
Investment earnings	160	1	13	174
Loan payments received	23,620	1,956	-	25,576
Total Receipts	<u>32,058</u>	<u>108,273</u>	<u>13</u>	<u>140,344</u>
Disbursements				
Current				
Economic development	27,647	106,318	-	133,965
Capital outlay				
Streets and highways	-	-	31,696	31,696
Total Disbursements	<u>27,647</u>	<u>106,318</u>	<u>31,696</u>	<u>165,661</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>4,411</u>	<u>1,955</u>	<u>(31,683)</u>	<u>(25,317)</u>
Other Financing Sources (Uses)				
Transfers out	(5,000)	-	-	(5,000)
Transfers in	20,000	-	80,500	100,500
Total Other Financing Sources (Uses)	<u>15,000</u>	<u>-</u>	<u>80,500</u>	<u>95,500</u>
Net Change in Cash Fund Balances	19,411	1,955	48,817	70,183
Cash Fund Balances, January 1	<u>178,122</u>	<u>1,246</u>	<u>115,113</u>	<u>294,481</u>
Cash Fund Balances, December 31	<u>\$ 197,533</u>	<u>\$ 3,201</u>	<u>\$ 163,930</u>	<u>\$ 364,664</u>

City of Lambert, Minnesota
Debt Service Funds
Combining Balance Sheet - Regulatory Basis
December 31, 2021

	308 2019B G.O. Refunding Bonds	309 2021 G.O. Refunding Bonds	310 2019A G.O. Improvement Bonds	<u>Total</u>
Assets				
Cash and Temporary Investments	<u>\$ 22,374</u>	<u>\$ 265,817</u>	<u>\$ 416,183</u>	<u>\$ 704,374</u>
Cash Fund Balances				
Restricted for Debt Service	<u>\$ 22,374</u>	<u>\$ 265,817</u>	<u>\$ 416,183</u>	<u>\$ 704,374</u>

City of Lamberton, Minnesota
Debt Service Funds
Combining Schedule of Cash Receipts, Disbursements
and Changes in Cash Fund Balances
For the Year Ended December 31, 2021

	308 2019B G.O. Refunding Bonds	309 2021A G.O. Refunding Bonds	310 2019A G.O. Improvement Bonds	Total
Receipts				
Taxes	\$ 19,070	\$ 67,347	\$ 271,747	\$ 358,164
Special assessments	4,885	11,156	69,699	85,740
Fees and fines	-	667	7,759	8,426
Investment earnings	14	58	70	142
Total Receipts	<u>23,969</u>	<u>79,228</u>	<u>349,275</u>	<u>452,472</u>
Disbursements				
Debt service				
Principal	21,000	570,000	182,000	773,000
Interest and other costs	2,835	31,560	151,467	185,862
Total Disbursements	<u>23,835</u>	<u>601,560</u>	<u>333,467</u>	<u>958,862</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>134</u>	<u>(522,332)</u>	<u>15,808</u>	<u>(506,390)</u>
Other Financing Sources (Uses)				
Bond proceeds	-	490,000	-	490,000
Premium on bonds issued	-	13,642	-	13,642
Total Other Financing Sources (Uses)	<u>-</u>	<u>503,642</u>	<u>-</u>	<u>503,642</u>
Net Change in Cash Fund Balances	134	(18,690)	15,808	(2,748)
Cash Fund Balances, January 1	<u>22,240</u>	<u>284,507</u>	<u>400,375</u>	<u>707,122</u>
Cash Fund Balances, December 31	<u>\$ 22,374</u>	<u>\$ 265,817</u>	<u>\$ 416,183</u>	<u>\$ 704,374</u>

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City of Lambert, Minnesota
 General Fund
 Budgetary Comparison Schedule - Regulatory Basis (Continued on the Following Pages)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
Budgetary Fund Balances, January 1	\$ 571,523	\$ 571,523	\$ 571,523	\$ -	\$ 901,362
Receipts					
Taxes					
Property taxes	413,120	413,120	420,601	7,481	408,771
Licenses and permits	4,850	4,850	4,965	115	4,282
Intergovernmental					
Federal					
Other	-	-	41,964	41,964	60,198
State					
Local government aid	319,064	319,064	324,349	5,285	315,086
Fire state aid	16,817	16,817	17,145	328	16,817
Other State aids	22,000	22,000	94,921	72,921	25,530
County					
Other	5,000	5,000	-	(5,000)	587
Total Intergovernmental	362,881	362,881	478,379	115,498	418,218
Charges for services					
General government	64,325	64,325	62,147	(2,178)	58,968
Public Safety	115,100	115,100	108,958	(6,142)	130,495
Parks and recreation	6,000	6,000	8,933	2,933	4,349
Library	750	750	496	(254)	213
Total Charges for Services	186,175	186,175	180,534	(5,641)	194,025
Fines and forfeits	2,900	2,900	533	(2,367)	1,317
Investment earnings	500	500	455	(45)	4,193
Miscellaneous					
Contributions and donations	21,000	21,000	55,728	34,728	20,702
Refunds and reimbursements	6,500	6,500	26,152	19,652	8,309
Other	500	500	297	(203)	609
Total Miscellaneous	28,000	28,000	82,177	54,177	29,620
Total Receipts	998,426	998,426	1,167,644	169,218	1,060,426
Other Financing Sources					
Sale of capital assets	8,000	8,000	5,399	(2,601)	-
Transfers in	12,000	12,000	-	(12,000)	-
Total Other Financing Sources	20,000	20,000	5,399	(14,601)	-
Total Receipts and Other Financing Sources	1,018,426	1,018,426	1,173,043	154,617	1,060,426
Amounts Available for Appropriation	1,589,949	1,589,949	1,744,566	154,617	1,961,788

City of Lamberton, Minnesota
 General Fund
 Budgetary Comparison Schedule - Regulatory Basis (Continued)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021				2020
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
Disbursements					
Current					
General government					
Mayor and Council					
Personal services	\$ 10,728	\$ 10,728	\$ 10,588	\$ 140	\$ 10,213
Supplies	1,200	1,200	1,871	(671)	1,100
Other services and charges	1,500	1,500	350	1,150	1,133
Total Mayor and Council	<u>13,428</u>	<u>13,428</u>	<u>12,809</u>	<u>619</u>	<u>12,446</u>
Administration and Finance					
Personal services	80,283	80,283	77,453	2,830	47,489
Supplies	3,500	3,500	2,434	1,066	3,672
Other services and charges	1,600	1,600	635	965	954
Total Administration and Finance	<u>85,383</u>	<u>85,383</u>	<u>80,522</u>	<u>4,861</u>	<u>52,115</u>
Election					
Personal services	-	-	-	-	1,470
Other services and charges	-	-	-	-	434
Total Election	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,904</u>
Other General Government					
Personal services	5,223	5,223	5,262	(39)	24,586
Supplies	2,500	2,500	438	2,062	1,508
Other services and charges	81,803	81,803	50,751	31,052	61,652
Total Other General Government	<u>89,526</u>	<u>89,526</u>	<u>56,451</u>	<u>33,075</u>	<u>87,746</u>
Total General Government	<u>188,337</u>	<u>188,337</u>	<u>149,782</u>	<u>38,555</u>	<u>154,211</u>
Public safety					
Police Protection					
Personal services	67,730	67,730	61,016	6,714	57,299
Supplies	4,500	4,500	5,568	(1,068)	2,741
Other services and charges	22,769	22,769	8,154	14,615	29,893
Total Police Protection	<u>94,999</u>	<u>94,999</u>	<u>74,738</u>	<u>20,261</u>	<u>89,933</u>
Ambulance					
Personal services	63,199	63,199	63,485	(286)	58,669
Supplies	6,750	6,750	14,793	(8,043)	9,936
Other services and charges	36,551	36,551	28,660	7,891	26,308
Total Ambulance	<u>106,500</u>	<u>106,500</u>	<u>106,938</u>	<u>(438)</u>	<u>94,913</u>
Fire Protection					
Personal services	43,470	43,470	44,575	(1,105)	42,755
Supplies	5,600	5,600	11,223	(5,623)	7,407
Other services and charges	21,665	21,665	15,416	6,249	20,912
Total Fire Protection	<u>70,735</u>	<u>70,735</u>	<u>71,214</u>	<u>(479)</u>	<u>71,074</u>
Civil Defense					
Other services and charges	1,768	1,768	1,159	609	1,910
Total Public Safety	<u>274,002</u>	<u>274,002</u>	<u>254,049</u>	<u>19,953</u>	<u>257,830</u>

City of Lamberton, Minnesota
 General Fund
 Budgetary Comparison Schedule - Regulatory Basis (Continued)
 For the Year Ended December 31, 2021
 (With Comparative Actual Amounts for Year Ended December 31, 2020)

	2021			Variance with Final Budget	2020
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
Disbursements (Continued)					
Current (continued)					
Streets and Highways					
Street Maintenance					
Personal services	\$ 53,769	\$ 53,769	\$ 56,271	\$ (2,502)	\$ 70,920
Supplies	20,500	20,500	17,918	2,582	15,421
Other services and charges	60,798	60,798	24,879	35,919	48,063
Total Street Maintenance	<u>135,067</u>	<u>135,067</u>	<u>99,068</u>	<u>35,999</u>	<u>134,404</u>
Street Lighting					
Supplies	1,500	1,500	121	1,379	36
Other services and charges	15,000	15,000	12,887	2,113	13,950
Total Street Lighting	<u>16,500</u>	<u>16,500</u>	<u>13,008</u>	<u>3,492</u>	<u>13,986</u>
Total Streets and Highways	<u>151,567</u>	<u>151,567</u>	<u>112,076</u>	<u>39,491</u>	<u>148,390</u>
Culture and Recreation					
Parks and Recreation					
Personal services	43,720	43,720	43,927	(207)	67,806
Supplies	8,900	8,900	4,977	3,923	7,037
Other services and charges	16,577	16,577	13,589	2,988	20,950
Total Parks and Recreation	<u>69,197</u>	<u>69,197</u>	<u>62,493</u>	<u>6,704</u>	<u>95,793</u>
Swimming Pool					
Personal services	35,453	35,453	33,810	1,643	18,129
Supplies	14,900	14,900	13,682	1,218	8,243
Other services and charges	20,251	20,251	25,985	(5,734)	16,243
Total Swimming Pool	<u>70,604</u>	<u>70,604</u>	<u>73,477</u>	<u>(2,873)</u>	<u>42,615</u>
Library					
Personal services	60,347	60,347	60,121	226	55,162
Supplies	2,800	2,800	3,305	(505)	3,358
Other services and charges	17,904	17,904	17,885	19	18,390
Total Library	<u>81,051</u>	<u>81,051</u>	<u>81,311</u>	<u>(260)</u>	<u>76,910</u>
Total Culture and Recreation	<u>220,852</u>	<u>220,852</u>	<u>217,281</u>	<u>3,571</u>	<u>215,318</u>
Clinic					
Supplies	1,000	1,000	295	705	-
Other services and charges	3,714	3,714	3,691	23	4,863
Total Clinic	<u>4,714</u>	<u>4,714</u>	<u>3,986</u>	<u>728</u>	<u>4,863</u>
Community Center					
Personal services	5,959	5,959	5,737	222	5,384
Supplies	3,300	3,300	1,370	1,930	4,622
Other services and charges	4,596	4,596	3,424	1,172	3,843
Total Community Center	<u>13,855</u>	<u>13,855</u>	<u>10,531</u>	<u>3,324</u>	<u>13,849</u>
Total Current	<u>853,327</u>	<u>853,327</u>	<u>747,705</u>	<u>105,622</u>	<u>794,461</u>
Capital outlay					
General government	2,500	2,500	-	2,500	-
Public safety	16,000	16,000	174,043	(158,043)	200,242
Streets and highways	30,000	30,000	61,745	(31,745)	307,601
Culture and recreation	21,000	21,000	10,890	10,110	420
Clinic	1,000	1,000	-	1,000	-
Community Center	-	-	-	-	1,541
Total Capital Outlay	<u>70,500</u>	<u>70,500</u>	<u>246,678</u>	<u>(176,178)</u>	<u>509,804</u>
Total Disbursements	<u>923,827</u>	<u>923,827</u>	<u>994,383</u>	<u>(70,556)</u>	<u>1,304,265</u>
Other Financing Uses					
Transfers out	<u>107,500</u>	<u>107,500</u>	<u>95,500</u>	<u>12,000</u>	<u>86,000</u>
Total Disbursements and Other Financing Uses	<u>1,031,327</u>	<u>1,031,327</u>	<u>1,089,883</u>	<u>(58,556)</u>	<u>1,390,265</u>
Budgetary Fund Balances, December 31	<u>\$ 558,622</u>	<u>\$ 558,622</u>	<u>\$ 654,683</u>	<u>\$ 96,061</u>	<u>\$ 571,523</u>

City of Lamberton, Minnesota
 Summary Financial Report
 Receipts and Disbursements for General Operations -
 Governmental Funds
 For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>	<u>Percent Increase (Decrease)</u>
Receipts			
Taxes	\$ 778,765	\$ 764,087	1.92 %
Special assessments	85,740	124,380	(31.07)
Licenses and permits	4,965	4,282	15.95
Intergovernmental	601,223	418,218	43.76
Charges for services	188,812	202,303	(6.67)
Fines and forfeits	8,959	1,749	412.24
Investment earnings	824	16,167	(94.90)
Loan payments	25,576	11,918	114.60
Miscellaneous	82,177	29,620	177.44
	<u>\$ 1,777,041</u>	<u>\$ 1,572,724</u>	<u>12.99 %</u>
Total Receipts	<u>2,244</u>	<u>1,968</u>	<u>13.99</u>
Per capita			
Disbursements			
Current			
General government	\$ 149,782	\$ 154,211	(2.87) %
Public safety	254,049	257,830	(1.47)
Streets and highways	112,076	164,710	(31.96)
Culture and recreation	217,281	215,318	0.91
Economic development	133,965	-	100.00
Clinic	3,986	4,863	(18.03)
Community Center	10,531	13,849	(23.96)
Capital outlay			
Public safety	174,043	200,242	(13.08)
Streets and highways	231,807	806,667	(71.26)
Culture and recreation	10,890	420	2,492.86
Community Center	-	1,541	(100.00)
Debt service			
Principal	773,000	205,000	277.07
Interest and other costs	185,862	204,360	(9.05)
	<u>\$ 2,257,272</u>	<u>\$ 2,229,011</u>	<u>1.27 %</u>
Total Disbursements	<u>2,850</u>	<u>2,790</u>	<u>2.16</u>
Per capita			
Total Long-term Indebtedness	\$ 5,259,400	\$ 6,275,400	(16.19) %
Per capita	6,641	7,854	(15.45)
General Fund Cash Balance - December 31	\$ 654,683	\$ 571,523	14.55 %
Per capita	827	715	15.56

The purpose of this report is to provide a summary of financial information concerning the City of Lamberton to interested citizens. The complete financial statements may be examined at City Hall, 112 2nd Ave W, Lamberton, Minnesota, 56152. Questions about this report should be directed to Valarie Halter, Clerk-Treasurer at (507) 752-7601.

SUPPLEMENTARY INFORMATION -
UNAUDITED

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

City of Lambertton, Minnesota
Schedule of Accounts Receivable - Unaudited
December 31, 2021

Fund	From	Source of Revenue and Purpose	Amount
General	Cody Bedner	Fire Response	\$ 750
	Artury Hernandez Cazalez	Mowing	50
	Marlow Erickson	Mowing	50
	Marlow Erickson	Mowing	100
	Melanie Guttum	EMT Initial Course Reimbursment	1,565
	Tyson Hennis	Fire Response	1,000
	Zachary Jewell	Mowing	50
	Zachary Jewell	Mowing	100
	Robert Krueger	Mowing	50
	Robert Mandile	Parking Violation - Snow	50
	Dyanna Miller	Mowing	50
	Dyanna Miller	Mowing	100
	Olivia Nielsen	EMT Initial Course Reimbursment	750
	Yaniel Santiago	Fire Response	1,000
	Jason Schultz	Street Repair	1,493
	Town of Johnsonville	Ambulance Coverage	330
	Lamberton Community Ambulance	Ambulance Charges	<u>69,747</u>
Total General			<u>77,235</u>
Economic Development	EDA Loan Recipients	EDA loans	<u>103,470</u>
	Total Accounts Receivable		<u>\$ 180,704</u>

City of Lambertton, Minnesota
Schedule of Accounts Payable - Unaudited
December 31, 2021

Fund	Vendor Name	Item and Purpose	Amount	
General	City of Lambertton	Dec 2021 Utilities	\$ 160	
	Cardmember Service	Street Dept Fuel	152	
	Cardmember Service	SRFAX & Adobe Subscription	42	
	Cardmember Service	City Office Water Cooler	9	
	Computer C & C, Inc.	Office 365, Cloud Backup & Support	219	
	Farmers CO-OP Oil Company	Police Dept - Fuel	127	
	Farmers CO-OP Oil Company	Street Dept Fuel	1,073	
	Glens Auto Parts	Various	632	
	Lamberton News	Copy Paper	48	
	Lamberton News	2022 Summary Budget Publication	108	
	Linde Gas & Equipment, Inc.	Ambulance - Medication	53	
	Marco	2021 Q4 - Copier Maintenance	124	
	Northland Securities	2021 CD Reporting	435	
	Running Supply, Inc.	Street Dept - Supplies	31	
	S & A Foods	Various	29	
	Redwood Electric Coop	Dec 2021 Electric Utilities	1,693	
	MN Department of Revenue	Q4 2021 - Sales & Use Tax	93	
	EDA	Cardmember Service	SRFAX & Adobe Subscription	4
		Cardmember Service	EDA Farmland Invoices & Contract	2
		Computer C & C, Inc.	Office 365, Cloud Backup & Support	24
		Lamberton News	Copy Paper	5
		Marco	2021 Q4 - Copier Maintenance	14
				\$ 5,077

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OTHER REQUIRED REPORTS

CITY OF LAMBERTON
LAMBERTON, MINNESOTA

FOR THE YEAR ENDED
DECEMBER 31, 2021

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**INDEPENDENT AUDITOR’S REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Honorable Mayor and City Council
City of Lamberton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States the financial statements of each major fund of the governmental and proprietary funds and the aggregate remaining fund information of the City of Lamberton, Minnesota (the City), 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, and have issued our report dated February 24, 2022.

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.

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.



Abdo
Mankato, Minnesota
February 24, 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**

Honorable Mayor and City Council
City of Lambert, Minnesota

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Lambert, Minnesota (the City), 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, and have issued our report thereon dated February 24, 2022.

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.

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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2021-003 to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002 to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses 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 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 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.



Abdo
Mankato, Minnesota
February 24, 2022



City of Lambertton
Schedule of Findings and Responses
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-001	Segregation of Duties
<i>Condition:</i>	During our audit we reviewed internal control procedures over payroll, cash disbursements, cash receipts, utility billing and investments and found the City to have limited segregation of duties in these areas.
<i>Criteria:</i>	There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
<i>Effect:</i>	The existence of this limited segregation of duties increases the risk of fraud.

Internal Control Over Cash Disbursements

<i>Cause:</i>	As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant controls and maintains the check stock, sets up and maintains vendors, approves vouchers for payment, prepares checks, signs checks in conjunction with the Mayor, mails checks to vendors, maintains the purchase journal and accounts payable records, posts transactions to the general ledger.
<i>Recommendation:</i>	While we recognize there are not enough staff members to eliminate this deficiency, we recommend that an individual, separate from the Clerk/Treasurer or administrative assistant, review cancelled checks received with the bank statement and investigate items such as; void checks, inconsistencies in check number sequence, possible alterations and unusual payees. This individual should also review bank reconciliations for accuracy and timeliness of preparation. It is important that the Council is aware of this condition and monitor all financial information.

Management response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.

City of Lambertton
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

Finding Description

2021-001 Segregation of Duties (Continued)

Internal Control Over Cash Receipts

Cause: As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant opens the mail, receives and endorses checks and currency, prepares and takes the deposit to the bank, sets up and maintains customers, generates billing statements, maintains receipts journal and accounts receivable records, posts transactions to the general ledger, and reconciles bank accounts.

Recommendation: While we recognize the number of staff is not large enough to eliminate this deficiency, we recommend that an individual separate from the Clerk/Treasurer or administrative assistant open the mail, prepare the deposit and review all deposits included on monthly bank reconciliations. It is important that the Council be aware of this condition and monitors all financial information. Additional controls might include obtaining and reviewing monthly receipt information.

Management response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs.

Internal Control Over Utility Billing

Cause: As a result of the small number of staff, the Clerk/Treasurer in conjunction with an administrative assistant approves new utility accounts, sets up and maintains customers and rates in the Softline Data UB Max system, generates and mails billing statements, prepares the deposit and takes it to the bank, maintains and reconciles the receivable subledger, and controls the accuracy, completeness of and access to utility billing program and data files.

Recommendation: While we recognize number of staff is not large enough to eliminate this deficiency, we recommend the Council review exception reports from meter reading software. It is important that the Council be aware of this condition and monitors all financial information.

Management response:

The Council has already taken measures to attempt to comply even though the City is relatively small and the number of clerical/bookkeeping staff they can employ is limited to two people. The Council has addressed this circumstance by having active participation in the City's affairs. The Maintenance Department Supervisor now approves any utility adjustments to individual accounts.

City of Lambertton
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-002	Preparation of Financial Statements
<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated.
<i>Cause:</i>	From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with cities of your size.
<i>Effect:</i>	<p>It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken provide you with the completed financial statements.</p> <p>The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors.</p>
<i>Recommendation:</i>	<p>Under these circumstances, the most effective controls lie in management's knowledge of the City's financial operations. Regarding the specific situations listed above, we would offer the following specific recommendation:</p> <ul style="list-style-type: none">• Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers.• Agree your Banyon receipt and disbursement information to the numbers reported in the financial statements plus any applicable accruals.• It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.
<i>Management response:</i>	
	For now, the City accepts the degree of risk associated with this condition, but is prepared to engage the services of a qualified party in the future if its own staff needs outside help in this matter.

City of Lambertton
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2021

<u>Finding</u>	<u>Description</u>
2021-003	Material Audit Adjustments
<i>Condition:</i>	During our audit, material adjustments were needed to adjust debt and capital assets.
<i>Criteria:</i>	Such adjustments should be detected and made by the City's personnel.
<i>Cause:</i>	City staff did not prepare a year end trial balance reflecting all necessary accounting entries in the areas noted above.
<i>Effect:</i>	It is likely that if a misstatement were to occur, it would not be detected by the City's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.
<i>Recommendation:</i>	We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management response:

The City will review all adjusting entries posted this year and make all such necessary adjustments in the future. The Clerk/Treasurer will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.