

CITY OF ADRIAN, MISSOURI

**FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
JUNE 30, 2022**

**TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

**CITY OF ADRIAN, MISSOURI
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210 W. Ohio
Butler, MO 64730
Phone: 660.679.6571
Fax: 660.679.6575

1626 Hedges Plaza
Nevada, MO 64772
Phone: 417.667.6375
Fax: 417.667.6420

1118 Remington Plaza, Suite A
Raymore, MO 64083
Phone: 816.331.4242
Fax: 816.322.4646

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Board of Aldermen
City of Adrian, Missouri

Adverse and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund (except as described below) of the City of Adrian, Missouri as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Adrian, Missouri's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Adverse
Water Fund	Unmodified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified
Nursing Home Fund	Adverse

Adverse Opinions

In our opinion, except for the matter described in the "Basis for Adverse Opinion on the Nursing Home Fund and Adverse Opinion on Business-Type Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Adrian, Missouri, as of June 30, 2022, or the changes in financial position and, where applicable, cash flows thereof or the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund other than the Nursing Home Fund of the City of Adrian, Missouri, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse Opinion on Nursing Home Fund and Adverse Opinion on Business-Type Activities

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Adrian, Missouri, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse, qualified, and unmodified audit opinions.

The financial information for the Nursing Home Funds was compiled and not subject to auditing procedures. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the Nursing Home Fund has not been determined.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Adrian, Missouri'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 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, 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 Adrian, Missouri'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 Adrian, Missouri's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule on page 27 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adrian's basic financial statements. The budgetary comparison schedules on pages 28 – 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules on pages 28 – 30 have not been subjected to the auditing procedures applied in 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 November 10, 2023, on our consideration of the City of Adrian, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Adrian, Missouri's internal control over financial reporting and compliance.

DSWA Certified Public Accountants. P.C

DSWA Certified Public Accountants. P.C.

Raymore, Missouri
November 10, 2023

**CITY OF ADRIAN, MISSOURI
STATEMENT OF NET POSITION
AS OF JUNE 30, 2022**

	Primary Government		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,489,974	\$ 1,852,491	\$ 3,342,465
Investments	321,989	1,848,154	2,170,143
Accounts and taxes receivable, net	64,477	136,570	201,047
Interest receivable	908	4,211	5,119
Prepaid insurance	20,043	14,517	34,560
Inventories	12,610	43,378	55,988
Total current assets	<u>1,910,001</u>	<u>3,899,321</u>	<u>5,809,322</u>
Noncurrent assets:			
Restricted cash and cash equivalents	68,251	756,394	824,645
Capital assets:			
Construction in progress	-	7,525	7,525
Land and nondepreciable infrastructure	13,730	23,484	37,214
Depreciable infrastructure, net	561,938	6,193,643	6,755,581
Depreciable buildings, property, and equipment, net	622,245	266,917	889,162
Total noncurrent assets	<u>1,266,164</u>	<u>7,247,963</u>	<u>8,514,127</u>
Total assets	<u>3,176,165</u>	<u>11,147,284</u>	<u>14,323,449</u>
LIABILITIES			
Current liabilities:			
Current portion of long-term obligations	14,275	272,460	286,735
Accounts payable	53,877	27,401	81,278
Sales tax payable	-	2,284	2,284
Compensated absences payable	13,890	19,185	33,075
Accrued liabilities	583	8,538	9,121
Accrued interest	-	14,270	14,270
Total current liabilities	<u>82,625</u>	<u>344,138</u>	<u>426,763</u>
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	36,091	1,785,890	1,821,981
Meter deposits	-	86,132	86,132
Total noncurrent liabilities	<u>36,091</u>	<u>1,872,022</u>	<u>1,908,113</u>
Total liabilities	<u>118,716</u>	<u>2,216,160</u>	<u>2,334,876</u>
NET POSITION			
Net investment in capital assets	1,147,547	4,387,940	5,535,487
Restricted for:			
Outer road maintenance	68,251	-	68,251
Debt service	-	670,262	670,262
Unrestricted	1,841,651	3,872,922	5,714,573
Total net position	<u>\$ 3,057,449</u>	<u>\$ 8,931,124</u>	<u>\$ 11,988,573</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF ADRIAN, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 274,601	\$ 70,432	\$ 189,512	\$ -	\$ (14,657)	\$ -	\$ (14,657)
Police	281,623	3,320	-	-	(278,303)	-	(278,303)
Fire	72,808	-	-	-	(72,808)	-	(72,808)
Street	353,599	-	-	-	(353,599)	-	(353,599)
Park	62,282	-	-	-	(62,282)	-	(62,282)
Interest on long-term debt	1,364	-	-	-	(1,364)	-	(1,364)
Total governmental activities	<u>1,046,277</u>	<u>73,752</u>	<u>189,512</u>	<u>-</u>	<u>(783,013)</u>	<u>-</u>	<u>(783,013)</u>
Business-type activities:							
Water	860,625	1,096,831	-	-	-	236,206	236,206
Sewer	111,438	133,031	-	-	-	21,593	21,593
Solid Waste	118,212	108,235	-	-	-	(9,977)	(9,977)
Nursing Home	15,088	254	-	-	-	(14,834)	(14,834)
Interest on long-term debt	30,724	-	-	-	-	(30,724)	(30,724)
Total business-type activities	<u>1,136,087</u>	<u>1,338,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,264</u>	<u>202,264</u>
Total primary government	<u>\$ 2,182,364</u>	<u>\$ 1,412,103</u>	<u>\$ 189,512</u>	<u>\$ -</u>	<u>(783,013)</u>	<u>202,264</u>	<u>(580,749)</u>
General Revenues:							
Taxes:							
Property taxes					126,861	-	126,861
Sales taxes					573,836	-	573,836
Franchise taxes					134,798	-	134,798
Gasoline taxes					73,216	-	73,216
Other taxes					9,625	-	9,625
Licenses and permits					8,954	-	8,954
Investment earnings					4,819	15,590	20,409
Gain (loss) on sale of assets					16,500	-	16,500
Miscellaneous					420	-	420
Special item: loss on disposal of nursing home					-	(830,922)	(830,922)
Transfers					(17,990)	17,990	-
Total general revenues					<u>931,039</u>	<u>(797,342)</u>	<u>133,697</u>
Change in net position					<u>148,026</u>	<u>(595,078)</u>	<u>(447,052)</u>
Net position--beginning					<u>2,909,423</u>	<u>9,526,202</u>	<u>12,435,625</u>
Net position--ending					<u>\$ 3,057,449</u>	<u>\$ 8,931,124</u>	<u>\$ 11,988,573</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF ADRIAN, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2022**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,489,974
Investments	321,989
Restricted cash	68,251
Accrued interest receivable	908
Accounts and taxes receivable, net	64,477
Prepaid insurance	20,043
Inventory	12,610
Total assets	<u>\$ 1,978,252</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 53,877
Accrued liabilities	<u>583</u>
Total liabilities	<u>54,460</u>
Deferred inflows of resources:	
Deferred property taxes	<u>10,365</u>
Fund balance:	
Nonspendable	
Prepaid items	20,043
Inventory	12,610
Restricted for:	
Outer road maintenance	68,251
Assigned for:	
Police	64,588
Fire	219,156
Street	299,249
Park	22,087
Capital improvements	781,858
Unassigned	<u>425,585</u>
Total fund balances	<u>1,913,427</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,978,252</u>
Reconciliation to Statement of Net Assets	
Fund balance of governmental activities	\$ 1,913,427
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,197,913
Property tax revenue is recognized as it is earned in the government-wide financial statements, but the portion not meeting the definition of "available" is deferred in the funds.	10,365
Compensated absences payable are recognized as paid time off earned by employees in the government-wide financial statements but are not considered currently payable and are not accrued in the funds.	(13,890)
Long-term liabilities, including leases payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(50,366)</u>
Net assets of governmental activities	<u>\$ 3,057,449</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

REVENUES	<u>General Fund</u>
Property taxes	\$ 142,937
Franchise taxes	134,798
Sales taxes	573,836
Other taxes	82,841
Licenses and permits	8,954
Lease revenue	-
Fines and forfeitures	3,320
Investment earnings	4,819
Grants	189,512
Miscellaneous	<u>71,425</u>
Total revenues	<u>1,212,442</u>
EXPENDITURES	
Salaries	388,550
Payroll taxes and benefits	133,895
Repairs	218,855
Administration and supplies	36,398
Insurance	57,580
Utilities and street lights	73,692
Library expenses	25,401
Vehicle expenses	26,320
Capital outlay and debt service	<u>64,978</u>
Total expenditures	<u>1,025,669</u>
Excess of revenues over expenditures before other financing sources (uses)	<u>186,773</u>
OTHER FINANCING (USES)	
Transfers in	4,665
Transfers (out)	<u>(22,655)</u>
Total transfers in (out)	<u>(17,990)</u>
Net change in fund balance	168,783
Fund balance--beginning	<u>1,744,644</u>
Fund balance--ending	<u>\$ 1,913,427</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds **\$ 168,783**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$	49,474	
Depreciation expense		<u>(84,795)</u>	(35,321)

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.

Increase (decrease) in deferred property taxes			(16,076)
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Capital assets acquired by capital lease are shown as an other financing source in the governmental funds and as an expenditure for the capital lease payments made. The other financing source must be removed from the statement of activities; principal payments are applied to the lease liability, rather than shown as an expenditure; interest expense is recognized as it accrues.

Payments on capital leases			<u>14,140</u>
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In the statement of activities only the gain/loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital asset sold.

			<u>16,500</u>
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Change in net position of governmental activities			<u>\$ 148,026</u>
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The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2022

	Business-Type Activities				Total
	Enterprise Funds				
	Water Fund	Sewer Fund	Nursing Home Fund	Solid Waste Fund	
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,802,825	\$ 31,980	\$ -	\$ 17,686	\$ 1,852,491
Investments	1,491,641	356,513	-	-	1,848,154
Inventories	41,944	1,434	-	-	43,378
Interest receivable	3,562	649	-	-	4,211
Accounts receivable, net	107,235	17,207	-	12,128	136,570
Prepaid insurance	12,614	1,903	-	-	14,517
Total current assets	<u>3,459,821</u>	<u>409,686</u>	<u>-</u>	<u>29,814</u>	<u>3,899,321</u>
Noncurrent assets:					
Restricted cash and cash equivalents	756,394	-	-	-	756,394
Capital assets:					
Construction in progress	7,525	-	-	-	7,525
Land and nondepreciable infrastructure	23,484	-	-	-	23,484
Depreciable infrastructure, net	5,649,808	543,835	-	-	6,193,643
Depreciable buildings, property, and equipment, net	219,520	47,397	-	-	266,917
Total noncurrent assets	<u>6,656,731</u>	<u>591,232</u>	<u>-</u>	<u>-</u>	<u>7,247,963</u>
Total assets	<u>10,116,552</u>	<u>1,000,918</u>	<u>-</u>	<u>29,814</u>	<u>11,147,284</u>
LIABILITIES					
Current liabilities:					
Current portion of long-term obligations	272,460	-	-	-	272,460
Accounts payable	8,955	793	-	17,653	27,401
Sales tax payable	2,284	-	-	-	2,284
Compensated absences payable	19,185	-	-	-	19,185
Payroll liabilities payable	7,605	933	-	-	8,538
Accrued interest	14,270	-	-	-	14,270
Total current liabilities	<u>324,759</u>	<u>1,726</u>	<u>-</u>	<u>17,653</u>	<u>344,138</u>
Noncurrent liabilities:					
Noncurrent portion of long-term obligations, net	1,785,890	-	-	-	1,785,890
Meter deposits	86,132	-	-	-	86,132
Total noncurrent liabilities	<u>1,872,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,872,022</u>
Total liabilities	<u>2,196,781</u>	<u>1,726</u>	<u>-</u>	<u>17,653</u>	<u>2,216,160</u>
NET POSITION					
Net investment in capital assets	3,796,708	591,232	-	-	4,387,940
Restricted for:					
Debt service	670,262	-	-	-	670,262
Unrestricted	3,452,801	407,960	-	12,161	3,872,922
Total net position	<u>\$ 7,919,771</u>	<u>\$ 999,192</u>	<u>\$ -</u>	<u>\$ 12,161</u>	<u>\$ 8,931,124</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Business-Type Activities				Total
	Enterprise Funds				
	Water Fund	Sewer Fund	Nursing Home Fund	Solid Waste Fund	
OPERATING REVENUES					
Charges for services	\$ 1,094,610	\$ 133,031	\$ 254	\$ 108,235	\$ 1,336,130
Miscellaneous	2,221	-	-	-	2,221
Total Operating Revenues	<u>1,096,831</u>	<u>133,031</u>	<u>254</u>	<u>108,235</u>	<u>1,338,351</u>
OPERATING EXPENSES					
Operations					
Personal services	61,053	24,172		-	85,225
Contractual services	147,695	48,868	15,088	118,212	329,863
Commodities	11,084	441			11,525
Production					
Personal services	181,239	-	-	-	181,239
Contractual services	157,341	-	-	-	157,341
Commodities	103,128	-	-	-	103,128
Depreciation	199,085	37,957	-	-	237,042
Total Operating Expenses	<u>860,625</u>	<u>111,438</u>	<u>15,088</u>	<u>118,212</u>	<u>1,105,363</u>
OPERATING INCOME	<u>236,206</u>	<u>21,593</u>	<u>(14,834)</u>	<u>(9,977)</u>	<u>232,988</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	13,694	1,883	13	-	15,590
Interest expense	(30,724)	-	-	-	(30,724)
Total Non-operating Revenues (Expenses)	<u>(17,030)</u>	<u>1,883</u>	<u>13</u>	<u>-</u>	<u>(15,134)</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES):	<u>219,176</u>	<u>23,476</u>	<u>(14,821)</u>	<u>(9,977)</u>	<u>217,854</u>
OTHER FINANCING SOURCES (USES):					
Transfers in (out)	53,553	(56,053)	10,878	9,612	17,990
INCOME (LOSS) BEFORE SPECIAL ITEM	<u>272,729</u>	<u>(32,577)</u>	<u>(3,943)</u>	<u>(365)</u>	<u>235,844</u>
SPECIAL ITEM					
Loss on disposal of nursing home	-	-	(830,922)	-	(830,922)
CHANGE IN NET POSITION	<u>272,729</u>	<u>(32,577)</u>	<u>(834,865)</u>	<u>(365)</u>	<u>(595,078)</u>
NET POSITION, BEGINNING	<u>7,647,042</u>	<u>1,031,769</u>	<u>834,865</u>	<u>12,526</u>	<u>9,526,202</u>
NET POSITION, ENDING	<u>\$ 7,919,771</u>	<u>\$ 999,192</u>	<u>\$ -</u>	<u>\$ 12,161</u>	<u>\$ 8,931,124</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Business-Type Activities Enterprise Funds			Total
	Water Fund	Sewer Fund	Solid Waste Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 1,102,723	\$ 130,745	\$ 107,550	\$ 1,341,018
Cash payments to suppliers for goods and services	(446,232)	(50,520)	-	(496,752)
Cash payments to employees	(242,292)	(24,172)	(117,162)	(383,626)
Net cash provided by operating activities	414,199	56,053	(9,612)	460,640
Cash flows from non-capital financing activities:				
Transfers (to) from other funds	53,553	(56,053)	9,612	7,112
Net cash flows from non-capital financing activities	53,553	(56,053)	9,612	7,112
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(20,311)	-	-	(20,311)
Principal paid on bonds, notes, and lease obligations	(268,560)	-	-	(268,560)
Interest paid on bonds, notes, and lease obligations	(32,561)	-	-	(32,561)
Net cash used by capital and related financing activities	(321,432)	-	-	(321,432)
Cash flows from investing activities:				
Investment income	13,694	1,883	-	15,577
Net increase (decrease) in cash	160,014	1,883	-	161,897
Cash and cash equivalents, July 1, 2021	3,890,846	386,610	17,686	4,295,142
Cash and cash equivalents, June 30, 2022	\$ 4,050,860	\$ 388,493	\$ 17,686	\$ 4,457,039
Cash and cash equivalents at June 30, 2022				
Cash	\$ 1,802,825	\$ 31,980	\$ 17,686	\$ 1,852,491
Investments (certificates of deposit)	1,491,641	356,513	-	1,848,154
Restricted cash and investments	756,394	-	-	756,394
Total	\$ 4,050,860	\$ 388,493	\$ 17,686	\$ 4,457,039
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 236,206	\$ 21,593	\$ (9,977)	\$ 247,822
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	199,085	37,957	-	237,042
Changes in assets and liabilities:				
Decrease (increase) in prepaid expenses	6,517	343	-	6,860
Decrease (increase) in accounts receivable	(9,258)	(2,286)	(685)	(12,229)
Increase (decrease) in accounts payable	(27,959)	(1,554)	1,050	(28,463)
Increase (decrease) in other payables	(1,927)	-	-	(1,927)
Increase (decrease) in meter deposits payable	11,535	-	-	11,535
Total adjustments	177,993	34,460	365	212,818
Net cash provided by operating activities:	\$ 414,199	\$ 56,053	\$ (9,612)	\$ 460,640

The accompanying notes are an integral part of the basic financial statements.

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. FINANCIAL REPORTING ENTITY

The City of Adrian, Missouri (the City) operates under a Council-Mayor form of government. The accounting policies of the City conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The City's combined financial statements include the accounts of all City operations. The City has no component units and is not included in any other governmental "reporting entity" as defined by GASB.

B. BASIS OF PRESENTATION

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-wide Financial Statements:

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding any fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which include fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

2. Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for in, individual funds based upon the purposes for which spending activities are controlled.

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

B. BASIS OF PRESENTATION (continued)

3. Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (other than those in Proprietary Funds) are accounted for through Governmental Funds. The measurement focus is on determination of financial position and changes in financial positions, rather than on net income determination. The following are the City's major governmental funds:

- a. General Fund: The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. AMNH Fund: The fund is used to provide support to Crystal Manor.

4. Proprietary Funds:

Proprietary funds are used to account for the City's ongoing activities, which are similar to those found in the private sector. The measurement focus is on determination of net income, financial position, and changes in financial position. The following are the City's major proprietary funds:

- a. Water Fund: This fund accounts for the acquisition, operation and maintenance of the City's water facilities and services.
- b. Sewer Fund: This fund accounts for the acquisition, operation and maintenance of the City's sewer facilities and services.
- c. Nursing Home Fund: This fund accounts for the operation and maintenance of the City's nursing home. The nursing home was closed on January 31, 2022.
- d. Solid Waste Fund: This fund accounts for the operation of solid waste collection and disposal.

In The Fund financial statements, fund balance consists of five classifications: 1) Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. 2) Restricted fund balance are amounts restricted to specific purposes. 3) Committed fund balance are amounts that can only be used for specific purposes as pursuant to official action by the Board prior to the end of the reporting period. 4) Assigned fund balance are amounts the City intends to use for a specific purpose but is neither restricted nor committed. The Board has the authority to assign fund balances. 5) Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general ledger.

When restricted and other fund balance resources are available for use, the City uses restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. BASIS OF ACCOUNTING

The term "basis of accounting" refers to the method in which revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. The term "basis of accounting" is also related to the timing of the measurement made, regardless of the measurement focus applied.

1. Government-wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes, franchise taxes, licenses, interest, and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue.

Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

2. Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related fund liability is incurred.

3. Revenue Recognition

In applying the susceptible to actual concept under the modified cash basis, certain revenue sources are deemed both measurable and available (collectible within the current year or within two months of year end and available to pay obligations of the current period.). This includes investments earnings and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or if the reimbursement is received in advance, the revenue is deferred until the expenditures are made.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

4. Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which have not matured are recognized when due. Allocations of costs, such as depreciation, are not recognized in the governmental funds.

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. BASIS OF ACCOUNTING (continued)

5. Proprietary Fund Financial Statements

All proprietary funds are accounted for using the accrual basis of accounting. Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

In reporting the financial activity of its business-type activities and enterprise funds, the City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. Those include the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Policies.

D. RESTRICTED NET POSITION

This position consists of cash and escrowed funds held in trust. They are restricted as to use for debt service and bond reserves as provided by bonding resolutions.

E. METER DEPOSITS

The City collects a refundable deposit from a new customer prior to initiating metered service.

F. STATEMENT OF CASH FLOWS

The City defines cash and cash equivalents used in the statement of cash flows as all cash and highly liquid investments with an original maturity of three months or less when purchased (both restricted and unrestricted).

G. ACCOUNTS RECEIVABLE

Accounts receivable result primarily from miscellaneous services provided to citizens accounted for in the Governmental Funds and from water, wastewater, nursing home and sanitation services accounted for in their respective business-type funds.

H. PREPAID EXPENSES

Certain payments to vendors reflecting costs applicable to future accounting periods have been recorded as prepaid expenses in both the government-wide and fund financial statements.

I. INVENTORY

All inventories are valued at cost using the first in/first out (FIFO) method and are expensed when used. Inventories are accounted for using the consumption method. On the fund financial statements, reported supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. Inventory consists of expendable supplies.

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

J. CAPITAL ASSETS

The City's property, plant, equipment, and infrastructure assets (i.e. roads, street lights, storm sewers, etc.) with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund financial statements. Capital assets purchased or acquired with an original cost of \$7,500 or more are reported at historical cost or estimated historical costs. Contributed capital assets are recorded at estimated fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest costs associated with construction of fixed assets are capitalized.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15 – 50
Equipment, furniture and fixtures	5 – 20
Infrastructure	40
Plant, structure and lines	10 - 50

K. COMPENSATED ABSENCES

Employees of the City are entitled to vacation leave and sick leave based on their length of employment. Compensated absences accumulate when they are earned. The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. The cumulative compensated absences at June 30, 2022, are reported on the government-wide financial statements.

L. DEFERRED INFLOWS OF RESOURCES

This separate financial statement element, deferred inflows of resources, represents an inflow of resources that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, deferred revenue, is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

M. FUND EQUITY CLASSIFICATIONS

In the government-wide statements, equity is shown as net position and classified into three components;

1. Net investment in capital assets – Consisting of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bond, mortgage notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets.

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

M. FUND EQUITY CLASSIFICATIONS (continued)

2. Restricted net position – Consisting of net position with constraints placed on their use whether by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislations. The City first utilizes restricted resources to finance qualifying activities.
3. Unrestricted net position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

N. USE OF ESTIMATES

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

2. CASH AND CASH EQUIVALENTS:

The City complies with various restrictions on deposits and investments which are imposed by state statutes as follows:

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The City’s policy is to collateralize the demand deposits with securities held by the financial institution’s agent and in the City’s name.

Missouri state statutes authorize the City, with certain restrictions, to deposit or invest in open accounts, time deposits, U.S. Treasury notes, and certificates of deposit. Collateral is required by Missouri state statutes for demand deposits and certificates of deposit. The fair value of the collateral must equal 100% of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are governed by state statutes and include U.S. government and government agency bonds and securities, general obligation bonds of any of the fifty states, general obligation bonds of any Missouri county and certain cities and special district and revenue bonds of certain Missouri agencies.

Restricted cash includes US Treasury money market funds held by the bond trustee with a Moody/Fitch rating of Aaa/ AAA and a weighted average to maturity of six days.

As of June 30, 2022, all bank balances on deposit are entirely insured or collateralized with securities.

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

3. INVESTMENTS:

The City's investments at June 30, 2022, consisted of certificates of deposit totaling \$2,170,143

- A. Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy mandates structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations thereby avoiding the need to sell investments on the open market prior to maturity.
- B. Certificates of Deposit: Certificates of deposit with maturities in excess of three months are classified as investments but are considered deposits for custodial risk determination. State statutes require the City's deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of June 30, 2022, all certificates of deposit are entirely insured or collateralized with securities.

For the purpose of the Statement of Cash Flows, all investments will be considered cash equivalents.

4. RESTRICTED ASSETS:

Cash and cash equivalents are restricted for the following purposes:

Governmental Funds	
General Fund	
Outer road maintenance	\$ 68,251
Business-type Funds	
Water fund:	
Customer deposits	74,597
Series 2007 Water Bonds:	
Debt service	1
Debt service reserve	416,360
Principal retirement	218,027
Interest retirement	11,200
Series 2009 Water Bonds:	
Debt service	1
Principal retirement	12,601
Interest retirement	1,616
Series 2010 Water Bonds:	
Debt service	1
Principal retirement	9,001
Interest retirement	1,454
Total business-type funds	744,859
Total restricted cash	\$813,110

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

5. ACCOUNTS RECEIVABLE - PROPRIETARY FUNDS:

Accounts receivable in the proprietary funds represent user-based charges for services provided to the City's customers. Net receivables at June 30, 2022, were as follows:

	Total Receivables	Allowance	Net Receivables
Business-type activities:			
Proprietary funds:			
Water	\$ 122,381	\$ (15,146)	\$ 107,235
Sewer	20,745	(3,538)	17,207
Nursing home	-	-	-
Solid waste	14,458	(2,330)	12,128
Total	\$ 157,584	\$ (21,014)	\$ 136,570

6. PROPERTY TAXES:

Property taxes levied and uncollected are carried as an asset of the appropriate fund and are recorded as revenue in the respective fund when they become measurable and available. Property taxes are assessed on October 31 and are due and payable at that time. Property taxes attach as an enforceable lien on January 1 and the taxes are due to be collected by the following October 31. Uncollected amounts become delinquent after January 1 of the following year. The property tax levy per \$100 of assessed valuation of real and tangible personal property for the calendar year 2021 was as follows:

Fund	Levy
General	\$.5797
Library	.2000
Park	.0500
Total	\$.8297

7. TAXES AND OTHER RECEIVABLES - GENERAL FUND:

Taxes receivable represent the collective ad valorem taxes, local sales taxes and franchise taxes. Adjustments have been made during the year to remove any uncollectible accounts. Management believes that the remaining receivables will be collected in the next fiscal year. Balances at June 30, 2022, were as follows:

	General Fund
Property tax	\$ 13,591
Sales tax	49,660
Motor vehicle and fuel	6,076
Franchise taxes	8,125
Less: Allowance	(12,975)
Total receivables	\$ 64,477

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

8. INSURANCE:

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. The City maintains commercial insurance to cover these risks.

9. COMMITMENTS AND CONTINGENCIES:

Federal and State Grants

The City receives financial assistance from various Federal and State governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types or on the overall financial position of the City at June 30, 2022.

10. DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested. All amounts of compensation deferred under the plan and all income attributable to those amounts are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefits of plan participants and/or beneficiaries. The City contributes a matching amount to the plan on behalf of employees. Total contributions to retirement accounts for the year ended June 30, 2022, totaled \$17,636.

11. LONG-TERM DEBT:

Changes in long-term debt during the year ended June 30, 2022, were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Governmental Activities:				
Lease purchases	\$ 5,354	\$ 40,800	\$ (11,526)	\$ 34,628
Note payable-Division of Energy	18,352	-	(2,614)	15,738
Compensated absences	13,890	-	-	13,890
Total Governmental Activities	<u>\$ 37,596</u>	<u>\$ 40,800</u>	<u>\$ (14,140)</u>	<u>\$ 64,256</u>
Business-Type Activities:				
Waterworks & Sewerage Bonds	\$2,250,800	\$ -	\$ (257,700)	\$ 1,993,100
Note payable-Division of Energy	76,110	-	(10,860)	65,250
Compensated absences	19,185	-	-	19,185
Total Business-Type Activities	<u>\$2,346,095</u>	<u>\$ -</u>	<u>\$ (268,560)</u>	<u>\$ 2,077,535</u>

The compensated absences liability attributable to governmental activities will be liquidated by the General Fund.

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

11. LONG-TERM DEBT (continued):

A. GOVERNMENTAL ACTIVITIES DEBT

Lease Purchases:

Lease purchase agreement for a police vehicle, bearing interest at 3.5% per annum, due in monthly payments of \$592, maturing November 2024. The balance owed at June 30, 2022 was \$16,430.

Lease purchase agreement for a police vehicle, bearing interest at 3.75% per annum, due in monthly payments of \$463, maturing December 2026. The balance owed at June 30, 2022 was \$18,198.

Debt service requirements to maturity are:

Year Ended			
June 30,	Principal	Interest	Total
2023	\$ 11,589	\$ 1,067	\$ 12,656
2024	12,014	643	12,657
2025	8,276	238	8,514
2026	2,749	30	2,779
	<u>\$ 34,628</u>	<u>\$ 1,978</u>	<u>\$ 36,606</u>

Assets with a cost of \$459,284 were acquired through capital leases.

B. BUSINESS-TYPE ACTIVITIES DEBT

1. Revenue Bonds:

Series 2007 Combined Waterworks and Sewerage System Revenue Bonds due in varying annual installments through July 1, 2028, interest at 1.40% \$ 1,600,000

Series 2009 Combined Waterworks and Sewerage System Revenue Bonds due in varying annual installments through January 1, 2030, interest at 1.51% 216,900

Series 2010 Combined Waterworks and Sewerage System Revenue Bonds due in varying annual installments through January 1, 2031, interest at 1.65% 176,200

\$ 1,993,100

Cash paid for interest on these bonds during the year ended June 30, 2022, totaled \$30,543.

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

11. LONG-TERM DEBT (continued):

Debt service requirements to maturity are:

Year Ended			
June 30,	Principal	Interest	Total
2023	\$ 261,300	\$ 26,845	\$ 288,145
2024	265,700	23,090	288,790
2025	269,300	19,278	288,578
2026	273,800	15,417	289,217
2027	279,300	11,474	290,774
2028-2031	643,700	12,106	655,806
	<u>\$ 1,993,100</u>	<u>\$ 108,210</u>	<u>\$ 2,101,310</u>

The bonds are issued under the State of Missouri – Direct Loan Program. These bonds are purchased by and resold nationally by the Missouri State Environmental Improvement and Energy Resources Authority. Funds generated by the sale are deposited with a trustee in the applicant’s name and are used for construction of system improvements. Net revenues are pledged over the term of the bonds in an amount equal to the total principal and interest payments.

C. COMBINED GOVERNMENTAL AND BUSINESS-TYPE NOTE PAYABLE:

During the year ended June 30, 2018, the City entered into an agreement with the Missouri Department of Economic Development – Division of Energy for the purpose of financing the purchase of solar panels. The loan totaled \$139,479 and was used to purchase solar panels to be used by both the governmental and business-type activities of the City. The loan proceeds and associated asset acquisitions are capitalized as such. The note is payable in semi-annual installments of \$7,989 beginning May 1, 2018, through November 1, 2027, interest at 2.75% per annum.

Total interest paid on this note for the year ended June 30, 2022, totaled \$2,505, reporting \$487 in the general fund/governmental activities and \$2,018 in the water fund/business-type activities.

Debt service requirements to maturity are as follows:

Year Ended	Governmental			Business-Type		
	June 30,	Principal	Interest	Total	Principal	Interest
2023	\$ 2,686	\$ 414	\$ 3,100	\$ 11,160	\$ 1,718	\$ 12,878
2024	2,761	339	3,100	11,469	1,409	12,878
2025	2,837	263	3,100	11,786	1,092	12,878
2026	2,916	184	3,100	12,113	765	12,878
2027	2,996	104	3,100	12,449	429	12,878
2028	1,542	21	1,563	6,273	86	6,359
	<u>\$ 15,738</u>	<u>\$ 1,325</u>	<u>\$ 17,063</u>	<u>\$ 65,250</u>	<u>\$ 5,499</u>	<u>\$ 70,749</u>

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

12. CAPITAL ASSETS:

The following is a summary in changes in capital assets for the year ended June 30, 2022:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Nondepreciable assets:				
Land and easements	\$ 13,730	\$ -	\$ -	\$ 13,730
Total non-depreciable assets	<u>13,730</u>	<u>-</u>	<u>-</u>	<u>13,730</u>
Depreciable capital assets:				
Buildings and improvements	607,817	-	-	607,817
Equipment, furniture and fixtures	1,249,176	106,774	(54,990)	1,300,960
Infrastructure	936,585	-	-	936,585
Total depreciable assets	<u>2,793,578</u>	<u>106,774</u>	<u>(54,990)</u>	<u>2,845,362</u>
Less accumulated depreciation:				
Buildings	174,988	15,152	-	190,140
Equipment, furniture and fixtures	1,105,153	46,228	(54,990)	1,096,391
Infrastructure	351,233	23,415	-	374,648
Total accumulated depreciation	<u>1,631,374</u>	<u>84,795</u>	<u>(54,990)</u>	<u>1,661,179</u>
Total depreciable capital assets, net	<u>1,162,204</u>	<u>21,979</u>	<u>-</u>	<u>1,184,183</u>
Total governmental activities capital assets	<u>\$ 1,175,934</u>	<u>\$ 21,979</u>	<u>\$ -</u>	<u>\$ 1,197,913</u>

Depreciation expense in the amount of \$84,795 was charged to the following functions:

General government	\$ 45,966
Street	22,531
Fire	202
Public safety	14,996
Park	1,100
	<u>\$ 84,795</u>

CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

12. CAPITAL ASSETS (continued):

	Beginning Balance	Additions	Retirements	Ending Balance
Business-type activities:				
Sewer Fund:				
Depreciable capital assets:				
Buildings and improvements	\$ 4,000	\$ -	\$ -	\$ 4,000
Plant, structure and lines	1,362,312	-	-	1,362,312
Equipment, furniture and fixtures	226,865	-	-	226,865
Total	<u>1,593,177</u>	<u>-</u>	<u>-</u>	<u>1,593,177</u>
Less accumulated depreciation:				
Buildings and improvements	4,000	-	-	4,000
Equipment, furniture and fixtures	167,777	11,691	-	179,468
Infrastructure	792,211	26,266	-	818,477
Total accumulated depreciation	<u>963,988</u>	<u>37,957</u>	<u>-</u>	<u>1,001,945</u>
Total sewer fund capital assets, net	<u>\$ 629,189</u>	<u>\$ (37,957)</u>	<u>\$ -</u>	<u>\$ 591,232</u>
Water Fund:				
Nondepreciable assets:				
Land and easements	\$ 23,484	\$ -	\$ -	\$ 23,484
Construction in progress	7,525	-	-	7,525
Depreciable capital assets:				
Buildings and improvements	127,496	-	-	127,496
Plant, structure and lines	8,924,438	-	-	8,924,438
Equipment, furniture and fixtures	552,378	20,311	-	572,689
Total	<u>9,635,321</u>	<u>20,311</u>	<u>-</u>	<u>9,655,632</u>
Less accumulated depreciation:				
Buildings and improvements	25,802	3,618	-	29,420
Infrastructure	3,093,186	181,444	-	3,274,630
Equipment, furniture and fixtures	437,222	14,023	-	451,245
Total accumulated depreciation	<u>3,556,210</u>	<u>199,085</u>	<u>-</u>	<u>3,755,295</u>
Total water fund capital assets, net	<u>\$ 6,079,111</u>	<u>\$ (178,774)</u>	<u>\$ -</u>	<u>\$ 5,900,337</u>
Solid Waste Fund:				
Depreciable capital assets:				
Equipment, furniture and fixtures	\$ 21,636	\$ -	\$ -	\$ 21,636
Less accumulated depreciation:				
Equipment, furniture and fixtures	21,636	-	-	21,636
Total solid waste fund capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

13. CONCENTRATIONS:

The City received approximately 46 percent of its water user fees from one public water supply district.

14. PLEGGED REVENUES:

The City has pledged future water and sewer customer revenues, net of specified operating expenses, to repay the Series 2007, 2009, and 2010 Combined Waterworks and Sewerage System Revenue Bonds. The bonds were issued for the amounts identified in Note 11 above. Proceeds from the bonds were used to fund infrastructure for the waterworks system. The bonds are payable solely from water and sewer fund net revenues and are payable through 2031. The total principal and interest remaining to be paid on the bonds is \$2,101,310.

15. INTERFUND TRANSFERS:

During the course of normal operations, the City may transfer revenues between funds for various reasons. The City's interfund transfers consist of transfers of revenues from a fund that a statute or the budget requires to collect them to the fund that a statute or the budget requires to expend them. Legally authorized transfers that are not intended to be repaid are treated as operating transfer and are included in the results of operations of both governmental and proprietary funds. Short-term amounts owed between funds, if any, are classified as "Due to/from other funds." Transfers for the current year were as follows:

	Transfer to				Total
	General Fund	Water Fund	Solid Waste Fund	Nursing Home Fund	
<u>Transfer from</u>					
General	\$ -	\$ -	\$ 9,612	\$ 13,043	\$ 22,655
Sewer	-	56,053	-	-	56,053
Water	2,500	-	-	-	2,500
Nursing home	2,165	-	-	-	2,165
	<u>\$ 4,665</u>	<u>\$ 56,053</u>	<u>\$ 9,612</u>	<u>\$ 13,043</u>	<u>\$ 83,373</u>

16. ANNUAL GENERAL OPERATING REVENUE FROM TRAFFIC VIOLATIONS:

House Bill 103 amending Section 302.341.2 RSMo became effective on August 28, 2013. The amendment to the statute required municipalities to report an accounting of the percent of annual general operating revenue from fines and court costs for traffic violations. The City's traffic violations revenues are .28% of this total "annual general operating revenue", which is substantially below the 20% threshold requirement of the amended statute.

17. SPECIAL ITEM:

The City sold the Nursing Home property at a substantial loss. It was determined continued operations were not feasible and subsidizing the operations would likely result in larger losses in the future. Further subsidization by the General Fund would weaken the overall financial position of the City and could possibly impair future City operations.

**CITY OF ADRIAN, MISSOURI
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

18. SUBSEQUENT EVENTS:

Management has reviewed subsequent events through November 10, 2023, the date these financial statements were available to be issued.

CITY OF ADRIAN, MISSOURI
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Budget Basis</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Positive (Negative)</u>
				<u>Final to Actual</u>
REVENUES				
Property taxes	\$ 128,550	\$ 128,550	\$ 126,307	\$ (2,243)
Franchise taxes	162,000	162,000	134,227	(27,773)
Sales taxes	690,700	690,700	587,185	(103,515)
Other taxes	-	-	83,336	83,336
Licenses and permits	13,000	13,000	8,954	(4,046)
Fines and forfeitures	12,000	12,000	3,320	(8,680)
Investment earnings	5,635	5,635	4,819	(816)
Grants	163,000	163,000	189,512	26,512
Miscellaneous	31,585	31,585	71,425	39,840
Total revenues	<u>1,206,470</u>	<u>1,206,470</u>	<u>1,209,085</u>	<u>2,615</u>
EXPENDITURES				
Salaries, payroll taxes and benefits	378,585	378,585	522,354	(143,769)
Repairs	120,700	120,700	184,414	(63,714)
Administration and supplies	78,852	78,852	35,667	43,185
Insurance	50,100	50,100	55,374	(5,274)
Utilities and street lights	71,475	71,475	70,440	1,035
Library expenditures	-	-	25,401	(25,401)
Vehicle expenses	23,023	23,023	25,968	(2,945)
Capital outlay and debt service	108,700	108,700	64,978	43,722
Total expenditures	<u>831,435</u>	<u>831,435</u>	<u>984,596</u>	<u>(153,161)</u>
Excess (deficiency) of revenues over expenditures	375,035	375,035	224,489	(150,546)
OTHER FINANCING (USES)				
Transfers in (out)	-	-	(17,990)	(17,990)
Net change in fund balance	375,035	375,035	206,499	<u>\$ (168,536)</u>
Fund balance - beginning	<u>1,744,644</u>	<u>1,744,644</u>	1,744,644	
Fund balance - ending	<u>\$ 2,119,679</u>	<u>\$ 2,119,679</u>		
Adjustment to reconcile to GAAP Basis				
Revenue accruals			3,357	
Expenditure accruals			<u>(41,073)</u>	
Fund balance - ending (GAAP Basis)			<u>\$ 1,913,427</u>	

See accompanying notes to supplemental information and independent auditors' report.

CITY OF ADRIAN, MISSOURI
BUDGETARY COMPARISON SCHEDULE FOR THE WATER FUND
NON-GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>	<u>Non-GAAP Budgetary Basis</u>	<u>Positive (Negative) Final to Actual</u>
OPERATING REVENUES				
Charges for services	\$1,161,601	\$1,161,601	\$ 1,087,573	\$ (74,028)
Miscellaneous	15,000	15,000	15,150	150
Total revenues	<u>1,176,601</u>	<u>1,176,601</u>	<u>1,102,723</u>	<u>(73,878)</u>
OPERATING EXPENSES				
Treatment and operations				
Personal services	542,798	542,798	242,292	300,506
Contractual services	326,326	326,326	333,024	(6,698)
Commodities	115,400	115,400	113,118	2,282
Capital outlay	46,235	46,235	20,311	25,924
Debt service	295,450	295,450	302,534	(7,084)
Total operating expenses	<u>1,326,209</u>	<u>1,326,209</u>	<u>1,011,279</u>	<u>314,930</u>
OPERATING INCOME	<u>(149,608)</u>	<u>(149,608)</u>	<u>91,444</u>	<u>241,052</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	<u>6,700</u>	<u>6,050</u>	<u>13,579</u>	<u>7,529</u>
INCOME BEFORE TRANSFERS	(142,908)	(143,558)	105,023	248,581
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>53,553</u>	<u>53,553</u>
CHANGE IN NET POSITION	(142,908)	(143,558)	158,576	302,134
NET POSITION, BEGINNING	<u>7,647,042</u>	<u>7,647,042</u>	<u>7,647,042</u>	<u>-</u>
NET POSITION, ENDING	<u>\$7,504,134</u>	<u>\$7,503,484</u>	7,805,618	<u>\$ 302,134</u>
Adjustments to reconcile to GAAP basis				
Accrual adjustments to revenues			9,258	
Accrual adjustments to expenses			15,109	
Capital outlay			20,311	
Principal on bonds and capital leases			268,560	
Depreciation			(199,085)	
NET POSITION, ENDING (GAAP Basis)			<u>\$ 7,919,771</u>	

See accompanying notes to supplemental information and independent auditors' report.

CITY OF ADRIAN, MISSOURI
BUDGETARY COMPARISON SCHEDULE FOR THE SEWER FUND
NON-GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>	<u>Non-GAAP</u>	<u>Positive (Negative)</u>
			<u>Budgetary Basis</u>	<u>Final to Actual</u>
OPERATING REVENUES				
Charges for services	\$ 145,425	\$ 145,425	\$ 130,745	\$ (14,680)
OPERATING EXPENSES				
Treatment and operations				
Personal services	24,470	24,470	24,172	298
Contractual services	132,645	132,645	50,079	82,566
Commodities	9,100	9,100	441	8,659
Capital outlay	22,500	22,500	-	22,500
Total operating expenses	<u>188,715</u>	<u>188,715</u>	<u>74,692</u>	<u>114,023</u>
OPERATING INCOME (LOSS)	(43,290)	(43,290)	56,053	99,343
NON-OPERATING REVENUES (EXPENSES)				
Interest income	<u>1,890</u>	<u>1,890</u>	<u>1,883</u>	<u>(7)</u>
CHANGE IN NET POSITION BEFORE OTHER FINANCING SOURCES (USES)	(41,400)	(41,400)	57,936	99,336
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>-</u>	<u>-</u>	<u>(56,053)</u>	<u>(56,053)</u>
CHANGE IN NET POSITION	(41,400)	(41,400)	1,883	<u>\$ 43,283</u>
NET POSITION, BEGINNING	<u>1,031,769</u>	<u>1,031,769</u>	<u>1,031,769</u>	
NET POSITION, ENDING	<u>\$ 990,369</u>	<u>\$ 990,369</u>	1,033,652	
Adjustments to reconcile to GAAP basis				
Accrual adjustments to revenues			2,286	
Accrual adjustments to expenses			1,211	
Depreciation			<u>(37,957)</u>	
NET POSITION, ENDING (GAAP Basis)			<u>\$ 999,192</u>	

See accompanying notes to supplemental information and independent auditors' report.

CITY OF ADRIAN, MISSOURI
BUDGETARY COMPARISON SCHEDULE FOR THE SOLID WASTE FUND
NON-GAAP BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variances</u>
	<u>Original</u>	<u>Final</u>	<u>Non-GAAP Budgetary Basis</u>	<u>Positive (Negative) Final to Actual</u>
OPERATING REVENUES				
Charges for services	<u>\$ 103,000</u>	<u>\$ 103,000</u>	<u>\$ 107,550</u>	<u>\$ 4,550</u>
OPERATING EXPENSES				
Treatment and operations				
Personal services	<u>4,480</u>	<u>4,480</u>	<u>-</u>	<u>4,480</u>
Contractual services	<u>92,350</u>	<u>92,350</u>	<u>117,162</u>	<u>(24,812)</u>
Total operating expenses	<u>96,830</u>	<u>96,830</u>	<u>117,162</u>	<u>(20,332)</u>
OPERATING INCOME (LOSS)	6,170	6,170	(9,612)	(15,782)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>(6,530)</u>	<u>(6,530)</u>	<u>9,612</u>	<u>16,142</u>
CHANGE IN NET POSITION	(360)	(360)	-	<u>\$ 360</u>
NET POSITION, BEGINNING	<u>12,526</u>	<u>12,526</u>	<u>12,526</u>	
NET POSITION, ENDING	<u>\$ 12,166</u>	<u>\$ 12,166</u>	12,526	
Adjustments to reconcile to GAAP basis				
Accrual adjustments to revenues			685	
Accrual adjustments to expenses			<u>(1,050)</u>	
NET POSITION, ENDING (GAAP Basis)			<u>\$ 12,161</u>	

See accompanying notes to supplemental information and independent auditors' report.

CITY OF ADRIAN, MISSOURI
NOTES TO THE REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. BUDGETS AND BUDGETARY ACCOUNTING

The Board of Aldermen follow the following procedures in establishing the budgetary data reflected in the government-wide financial statements:

1. Prior to April 30, the City Clerk, who serves as the budget officer, submits to the Board of Aldermen a proposed operating budget for all funds for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year. Total actual expenditures may not legally exceed total budgeted expenditures. All annual appropriations lapse at fiscal year-end.
2. Public hearings are conducted to obtain taxpayer comments. Prior to approval by the Board of Aldermen, the budget document is available for public inspection.
3. Prior to June 30, the budget is legally enacted by a vote of the Board of Aldermen.
4. Subsequent to its formal approval of the budget, the City Clerk has the authority to make necessary adjustments to the budget by formal vote.

Budgets are prepared on the cash basis of accounting (budgetary basis), in which revenues are recognized when collected and expenditures are recognized when paid. The reported budgetary data represent both the original and final approved budgets as adopted by the Board of Aldermen.



210 W. Ohio
Butler, MO 64730
Phone: 660.679.6571
Fax: 660.679.6575

1626 Hedges Plaza
Nevada, MO 64772
Phone: 417.667.6375
Fax: 417.667.6420

1118 Remington Plaza, Suite A
Raymore, MO 64083
Phone: 816.331.4242
Fax: 816.322.4646

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

The Honorable Mayor and Board of Aldermen
City of Adrian, Missouri

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, and each major fund of the City of Adrian, Missouri, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Adrian, Missouri's basic financial statements and have issued our report thereon dated November 10, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Adrian, Missouri'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 of Adrian, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Adrian, Missouri's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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 deficiency described in the accompanying schedule of findings and responses as item 2022-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-002 and 2022-003 to be significant deficiencies.

Report on Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City of Adrian, Missouri's financial statements are free of 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2022-004.

City of X, State Y's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Adrian, Missouri's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Adrian, Missouri's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of 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.

DSWA Certified Public Accountants. P. C.

Raymore, Missouri
November 10, 2023

CITY OF ADRIAN, MISSOURI
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS’
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
JUNE 30, 2022

Internal Control over Financial Reporting

2022-001 Segregation of Duties and Training – Material Weakness

Statement of Condition: The City is not able to segregate the duties of employees to all phases of an accounting transaction. Not all City employees have been trained or cross-trained on the accounting process.

Criteria: Adequate segregation of non-compatible duties is important for a sound and efficient internal control system. Including appropriate training and cross-training helps to ensure all employees understand the processes and may help mitigate the risks associated with a lack of segregated duties.

Cause: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction.

Effect: Errors or irregularities may result from this lack of segregation of employee duties and responsibilities.

Recommendation: Efficient segregation of duties in a small governmental environment is often difficult; however, we feel that the governing body and City management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Some areas in which we recommend additional oversight are:

1. The City should create a written accounting procedures manual. This manual should give detailed processes related to the accounting procedures of the City. The manual will allow all office personnel to understand how procedures should work. It is important not only for City personnel but the Board of Aldermen to understand the procedures within the City.
2. The City should have a written risk assessment that is monitored on an ongoing basis to ensure the Board is constantly assessing the risks associated with City procedures.
3. Implementation of secondary reviews is imperative when an entity is unable to adequately segregate duties. Secondary reviews should be performed by someone outside of the daily accounting cycle. Reviews should include approval of all adjusting journal entries entered in the accounting system, direct deposit payroll, timesheets, supporting documentation of all City expenditures including credit card statements and supporting documentation, bank statements, and reconciliations of cash to the general ledger. We further recommend that all City expenditures be included on the Council Approval Report for review and approval at each council meeting. Documentation of such reviews should be kept by the City.
4. Appropriate training and cross-training of employees will help to mitigate risks related to a lack of segregated duties.

City’s Response: Segregation is limited due to the small number of employees, however, we are working towards creating a procedure manual and working on reviews in several areas to help with this weakness.

CITY OF ADRIAN, MISSOURI
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS'
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
JUNE 30, 2022

Internal Control over Financial Reporting (continued)

2022-002 Significant Deficiency – Financial Accounting and Reporting

Statement of Condition: The City financial accounting software is complex in either function or in its initial setup.

Criteria: The financial accounting software should present reports and financial information in a user friendly manner.

Cause: The City's financial accounting software is complex in design or setup. It appears separate general ledgers have been created for each government function rather than being organized on a fund basis.

Effect: The cumbersome nature of the system hinders timely financial reporting and is difficult to extract information from.

Recommendation: The City should either reconstruct the existing accounting system or look into other accounting systems.

City's Response: The current financial software has been configured to generate a useful monthly report that tracks revenues and expenses compared to the budget. The city is moving to a new financial accounting software platform that is user friendly and has the capacity to generate financial reports that are functional and presented in a manner that are more easily understood by the general public. The new software install will begin before the end of 2022 and will be completed within the first quarter of 2023.

2022-003 Significant Deficiency – Financial Reporting and Budgets

Statement of Condition: The budget is not entered into the City's financial accounting software package.

Criteria: The City's financial reports should include the requisite financial information and the related budgetary information for management to make informed decisions and monitor City finances.

Cause: The budget is not entered into the City's financial accounting software.

Effect: Management could make financial decisions not in accordance with the adopted budget and/or fail to properly amend the budget as needed.

Recommendation: The City should adopt policies to ensure the budget is entered into the accounting system and the requisite budget to actual comparisons are readily available for management and the Board of Aldermen.

City's Response: The city's budget was entered into the accounting software in August of 2022. Monthly budget to actual revenue and expense reports have been generated and posted online for public consumption. The budget will be imported into the new financial accounting software every year as part of the budget planning and approval process.

CITY OF ADRIAN, MISSOURI
SCHEDULE OF CURRENT YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS'
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
JUNE 30, 2022

Compliance

2022 - 004 Budget

Statement of Condition: Actual expenditures exceeded budgeted expenditures in the General and Solid Waste Funds.

Criteria: Chapter 67.040 of the Revised Missouri Statutes states that an increase of expenditures over budgeted amounts is to be made only on formal resolution.

Effect: The City was not in compliance with Chapter 67.040 of the Revised Missouri Statutes.

Cause: The City did not amend the General Fund and Solid Waste Fund budgets to reflect increased expenditures.

Recommendation: We recommend the City monitor budgeted to actual expenditures and amend the budget accordingly.

City's Response: *The city will monitor budgeted to actual expenditures monthly and make the necessary budget amendments and or adjustments accordingly. The city will use the new financial accounting software implementation to bring any overstated funds into balance*

CITY OF ADRIAN, MISSOURI
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS'
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
JUNE 30, 2022

Internal Control over Financial Reporting

2021-001 Segregation of Duties and Training – Material Weakness

Statement of Condition: The City is not able to segregate the duties of employees to all phases of an accounting transaction. Not all City employees have been trained or cross-trained on the accounting process.

Criteria: Adequate segregation of non-compatible duties is important for a sound and efficient internal control system. Including appropriate training and cross-training helps to ensure all employees understand the processes and may help mitigate the risks associated with a lack of segregated duties.

Cause: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction.

Effect: Errors or irregularities may result from this lack of segregation of employee duties and responsibilities.

Recommendation: Efficient segregation of duties in a small governmental environment is often difficult; however, we feel that the governing body and City management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Some areas in which we recommend additional oversight are:

1. The City should create a written accounting procedures manual. This manual should give detailed processes related to the accounting procedures of the City. The manual will allow all office personnel to understand how procedures should work. It is important not only for City personnel but the Board of Aldermen to understand the procedures within the City.
2. The City should have a written risk assessment that is monitored on an ongoing basis to ensure the Board is constantly assessing the risks associated with City procedures.
3. Implementation of secondary reviews is imperative when an entity is unable to adequately segregate duties. Secondary reviews should be performed by someone outside of the daily accounting cycle. Reviews should include approval of all adjusting journal entries entered in the accounting system, direct deposit payroll, timesheets, supporting documentation of all City expenditures including credit card statements and supporting documentation, bank statements, and reconciliations of cash to the general ledger. We further recommend that all City expenditures be included on the Council Approval Report for review and approval at each council meeting. Documentation of such reviews should be kept by the City.
4. Appropriate training and cross-training of employees will help to mitigate risks related to a lack of segregated duties.

City's Response: *Segregation is limited due to the small number of employees, however, we are working towards creating a procedure manual and working on reviews in several areas to help with this weakness.*

Status: This is still a finding.

CITY OF ADRIAN, MISSOURI
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS'
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
JUNE 30, 2022

Internal Control over Financial Reporting (continued)

2021-002 Significant Deficiency – Financial Accounting and Reporting

Statement of Condition: The City financial accounting software is complex in either function or in its initial setup.

Criteria: The financial accounting software should present reports and financial information in a user friendly manner.

Cause: The City's financial accounting software is complex in design or setup. It appears separate general ledgers have been created for each government function rather than being organized on a fund basis.

Effect: The cumbersome nature of the system hinders timely financial reporting and is difficult to extract information from.

Recommendation: The City should either reconstruct the existing accounting system or look into other accounting systems.

City's Response: The current financial software has been configured to generate a useful monthly report that tracks revenues and expenses compared to the budget. The city is moving to a new financial accounting software platform that is user friendly and has the capacity to generate financial reports that are functional and presented in a manner that are more easily understood by the general public. The new software install will begin before the end of 2022 and will be completed within the first quarter of 2023.

Status: This is still a finding.

2021-003 Significant Deficiency – Financial Reporting and Budgets

Statement of Condition: The budget is not entered into the City's financial accounting software package.

Criteria: The City's financial reports should include the requisite financial information and the related budgetary information for management to make informed decisions and monitor City finances.

Cause: The budget is not entered into the City's financial accounting software.

Effect: Management could make financial decisions not in accordance with the adopted budget and/or fail to properly amend the budget as needed.

Recommendation: The City should adopt policies to ensure the budget is entered into the accounting system and the requisite budget to actual comparisons are readily available for management and the Board of Aldermen.

City's Response: The city's budget was entered into the accounting software in August of 2022. Monthly budget to actual revenue and expense reports have been generated and posted online for public consumption. The budget will be imported into the new financial accounting software every year as part of the budget planning and approval process.

Status: This is still a finding.

CITY OF ADRIAN, MISSOURI
SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES TO THE INDEPENDENT AUDITORS'
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
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JUNE 30, 2022

Compliance

2021 - 004 Budget

Statement of Condition: Actual expenditures exceeded budgeted expenditures in the General Fund.

Criteria: Chapter 67.040 of the Revised Missouri Statutes states that an increase of expenditures over budgeted amounts is to be made only on formal resolution.

Effect: The City was not in compliance with Chapter 67.040 of the Revised Missouri Statutes.

Cause: The City did not amend the General Fund budget to reflect increased expenditures.

Recommendation: We recommend the City monitor budgeted to actual expenditures and amend the budget accordingly.

City's Response: *The city will monitor budgeted to actual expenditures monthly and make the necessary budget amendments and or adjustments accordingly. The city will use the new financial accounting software implementation to bring any overstated funds into balance*

Status: This is still a finding.



210 W. Ohio
Butler, MO 64730
Phone: 660.679.6571
Fax: 660.679.6575

1626 Hedges Plaza
Nevada, MO 64772
Phone: 417.667.6375
Fax: 417.667.6420

1118 Remington Plaza, Suite A
Raymore, MO 64083
Phone: 816.331.4242
Fax: 816.322.4646

MANAGEMENT LETTER

To the Honorable Mayor and Board of Alderman
City of Adrian, Missouri

In planning and performing our audit of the financial statements of the City of Adrian, Missouri, for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal controls. Accordingly, we do not express an opinion on the effectiveness the City of Adrian, Missouri's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The comments below summarize our suggestions regarding those matters. This letter does not affect our report dated November 10, 2023, on the financial statements of City of Adrian, Missouri.

We will review the status of these comments during our next audit engagement. We have already discussed the following comments with your management personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

A. EXCESSIVE BANK ACCOUNTS

The City currently maintains records for approximately forty bank accounts that are deposited with three different banks. We recommend the Board consider pooling of funds to maximize investment yields and reduce bookkeeping for the numerous accounts.

B. OUTSTANDING CHECKS

We noted several checks on the City's accounts that have been outstanding for more than three years. State statute requires checks outstanding for this length of time to be remitted to the Missouri State Treasurer as unclaimed property. We recommend the City review the list of outstanding items for accuracy and remit the required items to the Missouri State Treasurer. If items are in error, the Board of Aldermen should vote to approve the removal of the erroneous items.

C. INTEREST EARNED ON SAVINGS ACCOUNTS AND CERTIFICATES OF DEPOSIT

Interest earned is not recorded on certain Certificates of Deposit and savings accounts. We recommend all CDs and savings accounts be reconciled monthly or quarterly, depending on the frequency of bank reporting.

D. RECURRING PAYMENTS

We recommend recurring payments for utilities, phone, and monthly payment type insurance be set up for automatic debit from the City's bank accounts. The Board of Aldermen would need to authorize such payments once and modify if there is a change in a vendor.

We wish to thank the management and staff of the City for their support and assistance during our audit.

This report is intended solely for the use of the Board of Aldermen of the City of Adrian, Missouri, and is not intended to be and should not be used by anyone other than this specified party.

DSWA Certified Public Accountants, P.C.

Raymore, Missouri
November 10, 2023