

**CITY OF MINNEWAUKAN  
MINNEWAUKAN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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**CITY OF MINNEWAUKAN**  
**ROSTER OF CITY OFFICIALS**  
**AS OF DECEMBER 31, 2019**

<u>Name</u>	<u>Office</u>
Niles Short	Council President
John Lunde	Council Vice President
Allan Nord	Council Member
Milt Schmid	Council Member
Matt Seufert	Mayor
Sherri Thompson	City Auditor

## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Minnewaukan  
Minnewaukan, North Dakota

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Municipal Highway Fund	Unmodified
Water, Sewer, and Garbage Fund	Qualified
Bank Building Fund	Qualified
Remaining Fund Information	Unmodified

### Basis for Qualified Opinions over Capital Assets

Prior to December 31, 2012, the City did not maintain capital asset records. Therefore, we were not able to obtain sufficient, appropriate audit evidence about the amounts at which capital assets are recorded for the governmental activities, business-type activities, Water, Sewer, and Garbage Fund, and Bank Building Fund. The amount by which this departure would affect the assets, net position, and expenditures in these opinion units has not been determined.

### Qualified Opinions

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinions over Capital Assets” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, the Water, Sewer, and Garbage fund, and the Bank Building fund of the City of Minnewaukan, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows for 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 general fund, municipal highway fund and the remaining fund information of the City of Minnewaukan, as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule as listed in the table of contents 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.

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 the missing information.

The roster of city officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 on our consideration of the City of Minnewaukan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Minnewaukan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Minnewaukan's internal control over financial reporting and compliance.



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

September 23, 2020

**CITY OF MINNEWAUKAN**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 170,811	\$ 64,271	\$ 235,082
Receivables (Net of Allowance for Uncollectibles)	5,353	12,958	18,311
Taxes Receivable	4,206	7,809	12,015
Due from Local Governments	8,790	-	8,790
Internal Balances	67,822	(67,822)	-
Capital Assets:			
Land	136,579	-	136,579
Buildings and Improvements	-	632,897	632,897
Machinery and Equipment	28,353	-	28,353
Infrastructure	6,377,416	-	6,377,416
Less Accumulated Depreciation	(1,049,445)	(61,220)	(1,110,665)
Total Capital Assets (Net of Accumulated Depreciation)	<u>5,492,903</u>	<u>571,677</u>	<u>6,064,580</u>
Total Assets	<u>5,749,885</u>	<u>588,893</u>	<u>6,338,778</u>
<b>LIABILITIES</b>			
Accounts Payable	6,250	7,615	13,865
Customer Deposits	-	2,300	2,300
Accrued Compensated Absences	818	-	818
Total Liabilities	<u>7,068</u>	<u>9,915</u>	<u>16,983</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	5,492,903	571,677	6,064,580
Restricted for:			
Highways	25,680	-	25,680
Social Security	10,640	-	10,640
Unrestricted	<u>213,594</u>	<u>7,301</u>	<u>220,895</u>
Total Net Position	<u>\$ 5,742,817</u>	<u>\$ 578,978</u>	<u>\$ 6,321,795</u>

See Notes to the Financial Statements

**CITY OF MINNEWAUKAN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	\$ 237,656	\$ 3,570	\$ -	\$ -	\$ (234,086)	\$ -	\$ (234,086)
Public Safety	3,900	-	-	-	(3,900)	-	(3,900)
Highways	94,589	-	-	-	(94,589)	-	(94,589)
Public Works	463	45,553	-	-	45,090	-	45,090
Economic Development	3,678	-	-	-	(3,678)	-	(3,678)
Culture and Recreation	826	-	-	-	(826)	-	(826)
Total Governmental Activities	<u>341,112</u>	<u>49,123</u>	<u>-</u>	<u>-</u>	<u>(291,989)</u>	<u>-</u>	<u>(291,989)</u>
Business-type Activities:							
Water, Sewer, Garbage	174,917	111,158	-	-	-	(63,759)	(63,759)
Bank Building	40,364	46,035	-	-	-	5,671	5,671
Total Business-type Activities	<u>215,281</u>	<u>157,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58,088)</u>	<u>(58,088)</u>
Total Primary Government	<u>\$ 556,393</u>	<u>\$ 206,316</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(291,989)</u>	<u>(58,088)</u>	<u>(350,077)</u>
General Revenues:							
Property Taxes					36,357	-	36,357
Special Assessments					-	9,011	9,011
Sales and Other Taxes					65,696	-	65,696
State Aid Distribution					19,240	-	19,240
Other Revenues					5,478	-	5,478
Unrestricted Interest Earnings					2,026	-	2,026
Total General Revenues and Transfers					<u>128,797</u>	<u>9,011</u>	<u>137,808</u>
Change in Net Position					(163,192)	(49,077)	(212,269)
Net Position - Beginning					<u>5,906,009</u>	<u>628,055</u>	<u>6,534,064</u>
Net Position - Ending					<u>\$ 5,742,817</u>	<u>\$ 578,978</u>	<u>\$ 6,321,795</u>

See Notes to the Financial Statements



**CITY OF MINNEWAUKAN**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2019**

	General	Municipal Highway Fund	Social Security Fund (Non-Major)	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 135,483	\$ 24,688	\$ 10,640	\$ 170,811
Receivables (Net of Allowance for Uncollectibles)	5,059	294	-	5,353
Taxes Receivable	4,206	-	-	4,206
Due from Local Governments	5,828	2,962	-	8,790
Due from Other Funds	67,822	-	-	67,822
Total Assets	\$ 218,398	\$ 27,944	\$ 10,640	\$ 256,982
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts Payable	\$ 3,986	\$ 2,264	\$ -	\$ 6,250
Total Liabilities	3,986	2,264	-	6,250
Deferred Inflows of Resources				
Unavailable Revenue - Property Taxes	4,206	-	-	4,206
Total Deferred Inflows of Resources:	4,206	-	-	4,206
<b>FUND BALANCES</b>				
Restricted				
Highway	-	25,680	-	25,680
Social Security	-	-	10,640	10,640
Assigned				
Horizons	15,342	-	-	15,342
Library	1,575	-	-	1,575
Unassigned	193,289	-	-	193,289
Total Fund Balances	210,206	25,680	10,640	246,526
Total Liabilities and Fund Balances	\$ 218,398	\$ 27,944	\$ 10,640	\$ 256,982

See Notes to the Financial Statements

**CITY OF MINNEWAUKAN**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**DECEMBER 31, 2019**

Total Governmental Funds Balances	\$	246,526
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Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, not reported in the governmental fund.

Capital Assets	\$ 6,542,348	
Accumulated Depreciation	<u>(1,049,445)</u>	5,492,903

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Special assessments and property taxes	4,206
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Long-term liabilities are not due and payable in the current period and, therefore, are not included in the governmental funds:

Accrued Compensated Absences	<u>(818)</u>	<u>(818)</u>
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Net Position of Governmental Activities	\$	<u>5,742,817</u>
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**CITY OF MINNEWAUKAN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>General</u>	<u>Municipal Highway Fund</u>	<u>Social Security Fund (Non-Major)</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property Taxes	\$ 37,430	\$ -	\$ -	\$ 37,430
Sales and Other Taxes	35,812	29,884	-	65,696
Licenses and Permits	1,386	-	-	1,386
State Aid Distributions	19,240	-	-	19,240
Charges for Services	45,953	1,785	-	47,738
Investment Earnings	2,026	-	-	2,026
Sale of Land	2,250	-	-	2,250
Sale of Equipment	-	1,377	-	1,377
Miscellaneous	1,851	-	-	1,851
Total Revenues	<u>145,948</u>	<u>33,046</u>	<u>-</u>	<u>178,994</u>
<b>EXPENDITURES</b>				
Current:				
General Government	101,541	-	-	101,541
Public Safety	3,900	-	-	3,900
Public Works	463	-	-	463
Highways	-	32,960	-	32,960
Economic Development	3,678	-	-	3,678
Total Expenditures	<u>109,582</u>	<u>32,960</u>	<u>-</u>	<u>142,542</u>
Net Change in Fund Balances	36,366	86	-	36,452
Fund Balances - Beginning	<u>173,840</u>	<u>25,594</u>	<u>10,640</u>	<u>210,074</u>
Fund Balances - Ending	<u>\$ 210,206</u>	<u>\$ 25,680</u>	<u>\$ 10,640</u>	<u>\$ 246,526</u>

See Notes to the Financial Statements

**CITY OF MINNEWAUKAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Total Governmental Funds \$ 36,452

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

Capital Outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ -	
Depreciation Expense	<u>(198,726)</u>	(198,726)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds

Special assessments and property taxes	(1,073)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Accrued Vacation	<u>155</u>
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Changes in Net Position	<u>\$ (163,192)</u>
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**CITY OF MINNEWAUKAN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2019**

	Business-type Activities		
	Water, Sewer and Garbage	Bank Building	Totals Current Year
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 64,271	\$ 64,271
Accounts Receivable (Net)	12,958	-	12,958
Taxes Receivable	7,809	-	7,809
Total Current Assets	<u>20,767</u>	<u>64,271</u>	<u>85,038</u>
Non-Current Assets:			
Capital Assets			
Buildings and Improvements	591,929	40,968	632,897
Less Accumulated Depreciation	<u>(43,003)</u>	<u>(18,217)</u>	<u>(61,220)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>548,926</u>	<u>22,751</u>	<u>571,677</u>
Total Assets	<u>569,693</u>	<u>87,022</u>	<u>656,715</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	6,311	1,304	7,615
Customer Deposits	2,300	-	2,300
Due to Other Funds	67,822	-	67,822
Total Current Liabilities	<u>76,433</u>	<u>1,304</u>	<u>77,737</u>
Total Liabilities	<u>76,433</u>	<u>1,304</u>	<u>77,737</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	548,926	22,751	571,677
Unrestricted	<u>(55,666)</u>	<u>62,967</u>	<u>7,301</u>
Total Net Position	<u>\$ 493,260</u>	<u>\$ 85,718</u>	<u>\$ 578,978</u>

See Notes to the Financial Statements

**CITY OF MINNEWAUKAN**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Business-type Activities		
	Water, Sewer and Garbage	Bank Building	Totals Current Year
Operating Revenues:			
Water Sales	\$ 57,544	\$ -	\$ 57,544
Utility Charges	44,860	-	44,860
Sewer Charges	7,722	-	7,722
Rental Income	-	46,035	46,035
Special Assessments	9,011	-	9,011
Miscellaneous Services	1,032	-	1,032
Total Operating Revenues	120,169	46,035	166,204
Operating Expenses:			
Utilities	61,396	10,906	72,302
Repairs and Maintenance	29,035	20,148	49,183
Supplies	40,789	1,473	42,262
Payroll	21,762	-	21,762
Insurance	1,735	4,491	6,226
Administration	3,536	-	3,536
Miscellaneous	1,034	26	1,060
Training	48	-	48
Travel and Entertainment	404	-	404
Depreciation Expense	15,178	3,320	18,498
Total Operating Expenses	174,917	40,364	215,281
Changes in Net Position	(54,748)	5,671	(49,077)
Net Position - Beginning	548,008	80,047	628,055
Net Position - Ending	\$ 493,260	\$ 85,718	\$ 578,978

See Notes to the Financial Statements

**CITY OF MINNEWUAKAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Business-type Activities		
	Water, Sewer and Garbage	Bank Building	Totals Current Year
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 115,770	\$ 46,035	\$ 161,805
Payments to Suppliers	(138,507)	(37,395)	(175,902)
Payments to Employees	(21,762)	-	(21,762)
Net Cash Provided (used) by Operating Activities	<u>(44,499)</u>	<u>8,640</u>	<u>(35,859)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash received from other funds	<u>44,499</u>	<u>-</u>	<u>44,499</u>
Net Cash Used by Capital and Related Financing Activities	<u>44,499</u>	<u>-</u>	<u>44,499</u>
Net Increase (Decrease) in Cash and Cash Equivalents	-	8,640	8,640
Cash and Cash Equivalents, January 1	<u>-</u>	<u>55,631</u>	<u>55,631</u>
Cash and Cash Equivalents, December 31	<u>\$ -</u>	<u>\$ 64,271</u>	<u>\$ 64,271</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	\$ (54,748)	\$ 5,671	\$ (49,077)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	15,178	3,320	18,498
Changes in Assets and Liabilities:			
Accounts Receivable	(4,599)	-	(4,599)
Accounts Payable	(530)	(351)	(881)
Customer Deposits	200	-	200
Operating Activities	<u>\$ (44,499)</u>	<u>\$ 8,640</u>	<u>\$ (35,859)</u>

See Notes to the Financial Statements

**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Minnewaukan operates under a City Council form of government. The financial statements of the City of Minnewaukan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity**

The financial statements of the City include those of independently administered organizations of which guardianship responsibility falls on the City. Guardianship responsibility is determined on the basis of taxing powers, budget authority, appointment of governing board members, designation of management, and fiscal accountability, including a guaranteed or moral responsibility for debt. The criteria used to determine the financial reporting entity were in conformance with GASB Statement 61, *The Financial Reporting Entity*.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Fund Accounting**

The accounts of the City are organized on the basis of funds, each of which are considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The City has the following funds:



**CITY OF MINNEWAUKAN**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) General Fund — This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b) Municipal Highway Fund — This is the City's fund used for the highway tax distributions from the State to be used for maintenance and repair of the roads within the City.

The other governmental fund of the City is considered nonmajor.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

**Enterprise Funds** are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- a) Water, Sewer, and Garbage Fund – To account for the operation and maintenance of the City's Water Utility, Sanitary Sewer System and Sanitation.
- b) Bank Building Fund – This is the City's fund used to account for the operations of the bank building which is rented out to USDA FSA.

**CITY OF MINNEWAUKAN**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. However, agency funds, unlike other fiduciary funds, report only assets and liabilities and do not have a measurement focus, and follow the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, pension expenditures and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Budgets**

The City management submits a proposed budget and levy to the City Council. The Council shall adopt the budget no later than the seventh day of October by resolution, which shall set forth the total for each budget fund. The proposed levies must be adopted and certified to the County by October 10<sup>th</sup> of each year.

**Cash and Cash Equivalents**

Cash includes amounts in demand deposits, money market accounts, and short-term certificates of deposit with a maturity date within three months of the date acquired.

**Capital Assets**

Capital assets, including land, construction in progress, buildings, improvements, infrastructure, and equipment assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Minnewaukan as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings and Improvements	20-40 Years
Machinery and Equipment	5-15 Years
Infrastructure	5-50 Years

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

**CITY OF MINNEWAUKAN**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

**Estimates**

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

**Inter-fund Transactions**

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

**Fund Balance**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purposes for which resources can be used:

*Nonspendable* – consists of amounts that are not in spendable form, such as inventory and prepaid items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

*Committed* – consists of internally imposed constraints. These constraints are established by formal action of the City Council.

*Assigned* – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council. Pursuant to Council resolution, the City's Clerk-Treasurer is authorized to establish assignments of fund balance.

*Unassigned* – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

The City considers the spendable fund balance to have been spent when expenditures are incurred.

**CITY OF MINNEWAUKAN**  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
DECEMBER 31, 2019

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

**Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – property taxes*, is only reported in the governmental funds balance sheet.

**Net Position Flow Assumption**

Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**NOTE 2 DEPOSITS AND INVESTMENTS**

In accordance with North Dakota Statutes, the City maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business in the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of deposits not covered by insurance bonds.

**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

At year ended December 31, 2019, the City's carrying amount of deposits was approximately \$235,000 and the bank balance was approximately \$238,000. The City's balances were fully covered by federal depository insurance as of December 31, 2019.

**Credit Risk**

The City may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- (d) Obligations of the state.

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable consists of money due for public works services performed by the City for the residents of the City. Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The allowance for uncollectible accounts receivable was \$500 and is summarized by fund below:

Fund	Allowance for Uncollectible Accounts Receivable
Water, Sewer, and Garbage	\$ 500

**NOTE 4 PROPERTY TAXES**

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In North Dakota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

Property taxes are payable in equal installments by property owners to the county as follows: Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

The county remits the collections to the City and other taxing districts on a monthly basis.

**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 5 CAPITAL ASSETS**

The following is a summary of capital asset activity for the year ended December 31, 2019:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<b><u>Governmental Activities</u></b>					
Capital Assets, Non-Depreciable:					
Land	\$ 136,579	\$ -	\$ -	\$ -	\$ 136,579
Capital Assets, Depreciable:					
Machinery and Equipment	28,353	-	-	-	28,353
Infrastructure	6,377,416	-	-	-	6,377,416
<b>Totals at Historical Cost</b>	<b>6,542,348</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,542,348</b>
Less Accumulated Depreciation for:					
Machinery and Equipment	(25,804)	(1,020)	-	-	(26,824)
Infrastructure	(824,915)	(197,706)	-	-	(1,022,621)
<b>Total Accumulated Depreciation</b>	<b>(850,719)</b>	<b>(198,726)</b>	<b>-</b>	<b>-</b>	<b>(1,049,445)</b>
<b>Total Governmental Activities Capital Assets, Net</b>	<b>\$ 5,691,629</b>	<b>\$ (198,726)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,492,903</b>
<b><u>Business-type Activities</u></b>					
Capital Assets, Depreciable:					
Buildings and Improvements	\$ 632,897	\$ -	\$ -	\$ -	\$ 632,897
<b>Totals at Historical Cost</b>	<b>632,897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>632,897</b>
Less Accumulated Depreciation for:					
Buildings and Improvements	(42,723)	(18,498)	-	-	(61,221)
<b>Total Accumulated Depreciation</b>	<b>(42,723)</b>	<b>(18,498)</b>	<b>-</b>	<b>-</b>	<b>(61,221)</b>
<b>Total Business-type Activities Capital Assets, Net</b>	<b>\$ 590,174</b>	<b>\$ (18,498)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 571,676</b>
<b>Depreciation expense was charged to Governmental functions as follows:</b>					
Highway					\$ 61,629
General Government					137,097
<b>Total Depreciation Expense</b>					<b>\$ 198,726</b>



**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

**NOTE 6     ACCOUNTS PAYABLE**

Accounts payable consists of amounts on open accounts owing to individuals, companies, or organizations for goods and services received prior to December 31, but paid for subsequent to that date.

**NOTE 7     INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The City had the following due to/from other funds as of December 31, 2019:

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General Fund	Water, Sewer, Garbage	\$ 67,822

Receivables and payables were made to cover the City's cash flow needs as of December 31, 2019.

**NOTE 8     RISK MANAGEMENT**

The City of Minnewaukan 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 of Minnewaukan participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Minnewaukan pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City of Minnewaukan with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Minnewaukan participates in the North Dakota Worker's Compensation Bureau and participates in the North Dakota Public Employees Retirement System for employee health and accident insurance.

There were no settled claims resulting from these risks that have exceeded insurance coverage in any of the past three fiscal years.

**NOTE 9     COMMITMENTS AND CONTINGENCY**

**Grant Programs**

The City participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2019, may be impaired.



**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**NOTE 10 COMPENSATED ABSENCES**

Vacation leave is accrued at a rate of four hours per month. Employees were allowed to have a carryover of up to twenty hours. As of December 31, 2019, the total liability to the City is \$818. Compensated absences are liquidated through the general fund.

**NOTE 11 NEW PRONOUNCEMENTS**

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

**CITY OF MINNEWAUKAN**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2019**

this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

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

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

**NOTE 12 SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. The extent of the impact this matter will have on the City's results of operations and financial condition is uncertain.

Other than the event noted above, there were no significant events that have been evaluated through September 23, 2020, which is the date these financial statements were available to be issued.

**CITY OF MINNEWAUKAN**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original & Final		Actual Amounts	Positive (Negative)
<b>REVENUES</b>				
Property Taxes	\$ 31,780	\$	37,430	\$ 5,650
Sales and Other Taxes	31,589		35,812	4,223
Licenses and Permits	1,873		1,386	(487)
State Aid Distributions	16,833		19,240	2,407
Charges for Services	-		45,953	45,953
Investment Earnings	-		2,026	2,026
Sale of Land	-		2,250	2,250
Miscellaneous	1,406		1,851	445
Total Revenues	<u>83,481</u>		<u>145,948</u>	<u>62,467</u>
<b>EXPENDITURES</b>				
Current:				
General Government	121,807		101,541	20,266
Public Safety	3,600		3,900	(300)
Public Works	-		463	(463)
Economic Development	-		3,678	(3,678)
Total Expenditures	<u>125,407</u>		<u>109,582</u>	<u>15,825</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(41,926)</u>		<u>36,366</u>	<u>78,292</u>
Net Change in Fund Balances	(41,926)		36,366	78,292
Fund Balances - Beginning	<u>173,840</u>		<u>173,840</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 131,914</u>	\$	<u>210,206</u>	<u>\$ 78,292</u>

See Note to the Budgetary Comparison Schedule

**CITY OF MINNEWAUKAN**  
**NOTE TO THE BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**NOTE 1 BUDGETARY COMPARISON**

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance.

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

To the Honorable Mayor and  
Members of the City Council  
City of Minnewaukan  
Minnewaukan, North Dakota

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, business-type activities, each major fund, and the remaining fund information of the City as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Minnewaukan's basic financial statements and have issued our report thereon dated September 23, 2020. The governmental activities, business-type activities, water, sewer, and garbage fund and the bank building fund have a qualified report because the City did not maintain proper capital asset records prior to December 31, 2012.

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

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

Our consideration of internal control was for the limited purpose described in the 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 did identify a certain deficiency in internal control that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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

or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-001 and 2019-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Minnewaukan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Minnewaukan's Responses to Findings**

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

### **Purpose of this Report**

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



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

September 23, 2020

**CITY OF MINNEWAUKAN**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Financial Statement Findings**

**2019-001      *Preparation of Financial Statements***

**Criteria**

An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

**Condition**

The City's auditor prepares periodic financial information for internal use that meets the needs of the Council. However, the City currently does not prepare financial statements, including accompanying note disclosures, as required by the modified cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

**Cause**

The City elected to not allocate resources for the preparation of the financial statements.

**Effect**

There is an increased risk of material misstatement to the City's financial statements.

**Recommendation**

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

**Views of Responsible Officials and Planned Corrective Actions**

Due to financial, efficiency and time constraints, it has been determined by the City's management that it is in the best interest of the City to have the financial statements and accompanying note disclosures prepared by the auditing firm at the time of the audit.

**CITY OF MINNEWAUKAN**  
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED  
FOR THE YEAR ENDED DECEMBER 31, 2019

**2019-002      *Segregation of Duties***

**Criteria**

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

**Condition**

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

**Cause**

Size and budget constraints limit the number of personnel within the accounting department.

**Effect**

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

**Recommendation**

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Council.

**Views of Responsible Officials and Planned Corrective Actions**

The City Council will continue to review financial information as a compensating control.



**CITY OF MINNEWAUKAN**  
**SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**2019-003      *Capital Asset Records***

**Criteria**

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

**Condition**

The capital asset records do not provide sufficient information for the determination that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

**Cause**

Internal controls have not been effectively designed or implemented to ensure that all required information related to the acquisition, capitalization, depreciation, and disposition of capital assets is captured and reflected in the appropriate accounting records.

**Effect**

An appropriate system of internal controls is not present to make a determination whether capital assets are properly reflected in accordance with accounting principles generally accepted in the United States of America.

**Recommendation**

We recommend that the entire accounting for capital assets be reviewed and a process to obtain a current capital asset record be developed. We also recommend that internal controls related to capital additions, depreciation determination, disposal reporting, and physical inventory inspections be developed and implemented.

**Views of Responsible Officials and Planned Corrective Actions**

The City will review their current accounting records and determine how to obtain the required information on a cost-effective basis.