

CITY OF OAKES  
OAKES, NORTH DAKOTA

FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2020

CITY OF OAKES  
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CITY OF OAKES  
LIST OF OFFICIALS  
DECEMBER 31, 2020

CITY COUNCIL

Office

Monty Zimmer  
Larry Engel  
Jeff Forward  
Arthur Conklin  
Nathan O'Brien  
Matt Schaefer  
Nick Harris

Mayor

EMPLOYEES:

Zasha Johnson  
Jason Paradis  
Matt O'Brien  
Pat Nelson

City Auditor  
City Attorney  
Chief of Police  
Public Works Director

**Harold J. Rotunda**  
Certified Public Accountant  
INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Oakes  
Oakes, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of City of Oakes as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities and each major fund of City of Oakes as of December 31, 2020, and the changes in the modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in conformance with the modified cash basis of accounting.

## **Basis of Accounting**

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

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

In accordance with Government Auditing Standards, I have also issued reports dated December 30, 2022, on my considerations of the City's internal control over financial reporting and on my 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 my 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 the City's internal control over financial reporting and compliance.

Fargo, North Dakota  
December 30, 2022

CITY OF OAKES  
STATEMENT OF NET POSITION- MODIFIED CASH BASIS  
DECEMBER 31, 2020

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	1,711,765.64	831,765.93	2,543,531.57
Non-current assets:			
Capital assets (net of accumulated de	7,532,214.79	15,789,505.19	23,321,719.98
Total Assets	9,243,980.43	16,621,271.12	25,865,251.55
<b>LIABILITIES</b>			
Current liabilities:			-
Accounts Payable			-
Long term liabilities			-
Due within one year:	462,000.00	480,481.00	942,481.00
Due in more than one year	2,403,829.74	10,849,080.68	13,252,910.42
Total liabilities	2,865,829.74	11,329,561.68	14,195,391.42
<b>NET POSITION</b>			
Net investment capital assets	4,666,385.05	4,459,943.51	9,126,328.56
Restricted for:			-
Capital projects	-		-
Debt service	1,042,117.15		1,042,117.15
Highways and streets	118,020.33		118,020.33
Economic development	85,494.47		85,494.47
Unrestricted	466,133.69	831,765.93	1,297,899.62
Total net position	6,378,150.69	5,291,709.44	11,669,860.13

The accompanying notes are an integral part of these financial statements.



CITY OF OAKES  
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2020

		Program Revenues			Revenue & Change: in net position
	Expenses	Charges for Services	Operating grants and Contributions	Capital grants and Contributions	Governmental Activities
Governmental activities:					
General government	444,402.20	9,908.83			(434,493.37)
Public safety	465,676.32	201,025.00			(264,651.32)
Highways and streets	769,110.44		113,247.92	-	(655,862.52)
Economic development	332,728.43		212,600.31		(120,128.12)
					-
Interest expense	191,734.32			441,811.53	250,077.21
Total Governmental Activities	2,203,651.71	210,933.83	325,848.23	441,811.53	(1,225,058.12)
Business-type activities					
Water	1,702,319.35	603,409.44			(1,098,909.91)
Sewer	117,778.60	297,158.88			179,380.28
Garbage	213,699.02	274,760.59			61,061.57
Interest expense	220,545.04	66,789.01			(153,756.03)
					-
Total Business-type activities	2,254,342.01	1,242,117.92	-	-	(1,012,224.09)
Total	4,457,993.72	1,453,051.75	325,848.23	441,811.53	(2,237,282.21)

	Governmental	Business-type	Total
Net expense	(1,225,058.12)	(1,012,224.09)	(2,237,282.21)
General Revenues			
Property taxes	712,818.93		712,818.93
Sales taxes	440,605.73		440,605.73
State aid	587,765.46	147,814.69	735,580.15
Interest	531.03	3,939.87	4,470.90
Other	209,453.67	59,849.45	269,303.12
Total General Revenues	1,951,174.82	211,604.01	2,162,778.83
Transfers in (out)	(149,696.27)	149,696.27	-
Change in Net Position	576,420.43	(650,923.81)	(74,503.38)
Net Position- January 1	5,801,730.26	5,942,633.25	11,744,363.51
Net Position- December 31	6,378,150.69	5,291,709.44	11,669,860.13

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES  
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS  
DECEMBER 31, 2020

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and investments	301,292.13	414,864.86	995,612.54	(3.89)	1,711,765.64
					-
Total Assets	301,292.13	414,864.86	995,612.54	(3.89)	1,711,765.64
<b>LIABILITIES</b>					
Accrued payroll liabilities					-
					-
Total liabilities	-	-	-	-	-
<b>FUND BALANCE</b>					
Restricted for					-
Capital projects					-
Debt service			1,042,117.15		1,042,117.15
Highways and streets		118,020.33			118,020.33
Economic development		85,494.47			85,494.47
Assigned for General Government		218,329.73			218,329.73
Unassigned	301,292.13	(6,979.67)	(46,504.61)	(3.89)	247,803.96
Total fund balance	301,292.13	414,864.86	995,612.54	(3.89)	1,711,765.64
Total liabilities and fund balance	301,292.13	414,864.86	995,612.54	(3.89)	1,711,765.64

The accompanying notes are an integral part of these financial statements.



CITY OF OAKES  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS- MODIFIED CASH BASIS  
DECEMBER 31, 2020

Total Fund Balances for Governmental Funds	1,711,765.64
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in governmental funds

Cost of capital assets	12,335,840.79	
Less accumulated depreciation	4,803,626.00	
Net capital assets		7,532,214.79

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities- both current and long-term are reported in the statement of net assets. Balances at year end are:

Bonds payable	(2,245,000.00)
SRF Notes payable	(470,000.00)
Notes payable	(150,829.74)

Total Net Position of Governmental Activities	6,378,150.69
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The accompanying notes are an integral part of these financial statements.

CITY OF OAKES  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2020

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
Property taxes	396,206.41	35,677.99	280,934.53		712,818.93
Sales taxes		440,605.73			440,605.73
Special Assessments			441,811.53		441,811.53
Intergovernmental	314,365.96	386,647.42			701,013.38
Interest	444.92	86.11			531.03
Charges for services	17,957.66	224,245.06	19,173.72		261,376.44
Other	294,128.42	77,482.95			371,611.37
 Total Revenues	 1,023,103.37	 1,164,745.26	 741,919.78	 -	 2,929,768.41
 Current:					
General government	350,079.63	202,122.57			552,202.20
Public safety	257,964.77	258,011.53			515,976.30
Highways and streets		114,226.82			114,226.82
Economic development	212,600.31	120,128.12			332,728.43
Capital outlays		117,913.62			117,913.62
Debt Service					
Principal	24,661.31		432,000.00		456,661.31
Interest expense	4,223.17		187,511.15		191,734.32
 Total Expenditures	 849,529.19	 812,402.66	 619,511.15	 -	 2,281,443.00
 Excess revenues (expenditures)	 173,574.18	 352,342.60	 122,408.63	 -	 648,325.41
 Other Financing Sources (Uses):					
Transfers in	140,800.00	61,000.00	90,151.42		291,951.42
Transfers out	(12,000.00)	(312,782.86)	(116,864.83)		(441,647.69)
Bond proceeds					-
 Total other financing sources and uses	 128,800.00	 (251,782.86)	 (26,713.41)	 -	 (149,696.27)
 Net change in fund balances	 302,374.18	 100,559.74	 95,695.22	 -	 498,629.14
 Fund balance- beginning	 (1,082.05)	 314,305.12	 899,917.32	 (3.89)	 1,213,136.50
 Fund balance- ending	 301,292.13	 414,864.86	 995,612.54	 (3.89)	 1,711,765.64

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES  
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS  
 YEAR ENDED DECEMBER 31, 2020

Net Change in Fund Balances- Total Governmental Funds	498,629.14
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Current year capital outlay	158,099.98	
Current year depreciation expense	536,970.00	(378,870.02)

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:

Debt issued, net of related premiums and discounts	-
Principal retirement	456,661.31

Change in Net Position of Governmental Activities	576,420.43
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The accompanying notes are an integral part of these financial statements.

## CITY OF OAKES

## STATEMENT OF NET POSITION- MODIFIED CASH BASIS

## PROPRIETARY FUNDS

DECEMBER 31, 2020

	Water & Sewer	Sanitation	Total
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents and investments	557,134.17	274,631.76	831,765.93
Noncurrent assets:			-
Capital assets (net of accumulated depreciation)	15,789,505.19		15,789,505.19
Total Assets	16,346,639.36	274,631.76	16,621,271.12
<b>LIABILITIES</b>			
Current liabilities:			-
Accounts Payable	-	-	-
Long term liabilities			
Due within one year:	480,481.00	-	480,481.00
Due in more than one year	10,849,080.68	-	10,849,080.68
Total liabilities	11,329,561.68	-	11,329,561.68
<b>NET POSITION</b>			
Net investment in capital assets	4,459,943.51	-	4,459,943.51
Restricted for:			
Capital projects	-		-
Debt service	-		-
Unrestricted	557,134.17	274,631.76	831,765.93
Total net position	5,017,077.68	274,631.76	5,291,709.44

The accompanying notes are an integral part of these financial statements.

## CITY OF OAKES

## STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS

## PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2020

	Water & Sewer	Sanitation	Total
OPERATING REVENUE			
Charges for services	967,357.33	274,760.59	1,242,117.92
OPERATING EXPENSES			
Salaries	184,783.02	56,544.91	241,327.93
Benefits	66,697.74	16,744.74	83,442.48
Equipment	-	-	-
Contract services	-	96,054.99	96,054.99
Electricity	49,604.59	-	49,604.59
Supplies	52,009.54	20,935.14	72,944.68
Repairs and maintenance	74,742.94	17,331.37	92,074.31
Insurance	3,991.87	4,349.00	8,340.87
Office expense	306.00	573.76	879.76
Depreciation	1,308,111.00	-	1,308,111.00
Miscellaneous	4,514.44	1,165.11	5,679.55
Total operating expenses	1,744,761.14	213,699.02	1,958,460.16
Operating income (loss)	(777,403.81)	61,061.57	(716,342.24)
NON-OPERATING REVENUE (EXPENSE)			
Property taxes	-	-	-
Interest income	3,939.87	-	3,939.87
Grant income	147,814.69	-	147,814.69
Interest expense	(220,545.04)	-	(220,545.04)
Capital outlay	(62,982.03)	(12,354.78)	(75,336.81)
Other	45,863.62	13,985.83	59,849.45
Total non-operating rev (exp)	(85,908.89)	1,631.05	(84,277.84)
Income (loss) before transfers	(863,312.70)	62,692.62	(800,620.08)
Transfers in	747,016.27	80,000.00	827,016.27
Transfers out	(510,940.00)	(166,380.00)	(677,320.00)
Change in net position	(627,236.43)	(23,687.38)	(650,923.81)
Net Position- January 1	5,644,314.11	298,319.14	5,942,633.25
Net Position- December 31	5,017,077.68	274,631.76	5,291,709.44

The accompanying notes are an integral part of these financial statements.



CITY OF OAKES  
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2020

	Water & Sewer	Sanitation	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	967,357.33	274,760.59	1,242,117.92
Payments to suppliers	(314,849.15)	(169,508.89)	(484,358.04)
Payments to employees	(184,783.02)	(56,544.91)	(241,327.93)
Other receipts	193,678.31	13,985.83	207,664.14
Net cash provided by (used in) operating activities	661,403.47	62,692.62	724,096.09
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	747,016.27	80,000.00	827,016.27
Transfers to other funds	(510,940.00)	(166,380.00)	(677,320.00)
Net cash provided by (used in) noncapital financing acti	236,076.27	(86,380.00)	149,696.27
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets			-
Principal paid on capital debt	(492,132.56)		(492,132.56)
Interest paid on capital debt	(220,545.04)	-	(220,545.04)
Debt proceeds	-		-
Net cash provided by (used in) capital and related financ	(712,677.60)	-	(712,677.60)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	3,939.87	-	3,939.87
Net cash provided by (used in) investing activities	3,939.87	-	3,939.87
Net increase (decrease) in cash and cash equivalents	188,742.01	(23,687.38)	165,054.63
Balance- beginning of year	368,392.16	298,319.14	666,711.30
Balance- end of year	557,134.17	274,631.76	831,765.93
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	(777,403.81)	61,061.57	(716,342.24)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	1,308,111.00	-	1,308,111.00
Capital outlay	(62,982.03)	(12,354.78)	(75,336.81)
Miscellaneous receipts (expense)	193,678.31	13,985.83	207,664.14
Net cash provided by operating activities	661,403.47	62,692.62	724,096.09

The accompanying notes are an integral part of these financial statements.



CITY OF OAKES  
OAKES, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Oakes (City) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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 City's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the City. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Based on the above criteria the city has the following blended component unit:

Oakes Airport Authority- The Airport Authority was organized to provide management of the airport in Oakes. The Council appoints all Board members and approves its tax levy. The Airport Authority does not issue separate reports.

CITY OF OAKES

Notes to Financial Statements- Continued

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary. The City currently has no fiduciary funds.

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

Special Revenue Fund- This fund accounts for financial resources that exist for special purposes. The major sources of revenues is property taxes, sales taxes and intergovernmental revenues.

Capital Projects Funds. Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

## CITY OF OAKES

### Notes to Financial Statements- Continued

Debt Service funds. Debt funds are used to account for the accumulation of financial resources for the payment of principal and interest on the City's debt. The City annually levies special assessments restricted for the retirement of debt.

The City reports the following major enterprise funds:

Water and sewer- accounts for operating activities of the City's water and sewer utility services.

Sanitation- accounts for operating activities of the City's sanitation services

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied

##### **Measurement Focus**

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate.

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



## CITY OF OAKES

### Notes to Financial Statements- Continued

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

#### **Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

In the government-wide statements of net position and statement of activities and the fund financial statements, both governmental and business-type activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for long term debt and depreciation in the government-wide statements, and the proprietary fund statements. In accordance with the modified cash basis of accounting, the City reports capital assets and debt. Payments for payroll benefit liabilities are reported in the year that they are incurred and budgeted. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City's governmental funds use the modified cash basis of accounting. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Payments for payroll benefit liabilities are reported in the year that they are incurred and budgeted.

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

CITY OF OAKES  
Notes to Financial Statements- Continued

D. Budgets

Based upon available financial information and requests by the city council, the auditor prepares the City budget. The budget is prepared for the general, special revenue, and debt service funds on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

City taxes must be levied by the governing board on or before October 7. The taxes levied must be certified to the County auditor by October 10. The governing body of the City may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the County auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts and certificates of deposits with maturity of less than 90 days. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Net estimated historical cost was used to value the majority of assets acquired prior to January 1, 2004. Prior to January 1, 2004, governmental funds infrastructure assets were not capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.



CITY OF OAKES

Notes to Financial Statements- Continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives 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.

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

ASSETS	YEARS
Permanent Buildings	30
Vehicles and equipment	7

G. Long-Term Obligations

In the government-wide financial statements, long term debt and other long term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.



CITY OF OAKES  
Notes to Financial Statements- Continued

**Restricted** - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council-the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

**Unassigned** - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the City's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

The council has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

#### I. Interfund 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.

CITY OF OAKES

Notes to Financial Statements- Continued

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council amended the City budget for 2020. The budget amendments are detailed in the attached schedule on page 34.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets.

No remedial action is required.

NOTE 3 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 institution situated and doing business within 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 the deposit not covered by insurance or bonds.

## CITY OF OAKES

### Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies, instrumentalities, or by any City, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States, or such other securities approved by the banking board.

At December 31, 2020, the City's carrying amount of deposits was \$2,543,532. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

#### Credit Risk

State statutes authorize the City to invest in: (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress. (2) 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. (3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state. (4) Obligations of the state.

#### Concentration of Credit Risk

The City does not have a limit on the amount it may invest in any one issuer.



CITY OF OAKES  
Notes to Financial Statements- Continued

NOTE 4: PROPERTY TAXES

The County treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and 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 on property taxes 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.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

NOTE 5: TRANSFERS

Transfers are used to 1)move unrestricted revenues to finance various programs 2)move sales tax revenues to fund programs and projects and 3)move revenues from the fund with collection authorization to the debt service funds as debt service principal and interest payments become due.

	Transfer in	Transfer out
General Fund	140,800	12,000
Special Revenue Fund	61,000	312,783
Capital Project Fund		
Debt Service Fund	90,151	116,865
Total Governmental Funds	291,951	441,648
Water & Sewer Fund	747,016	510,940
Sanitation Fund	80,000	166,380
Total Enterprise Funds	827,016	677,320
Total	1,118,967	1,118,967

CITY OF OAKES  
Notes to Financial Statements- Continued

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Balance January 1	Increases	Decreases	Balance December 31
Construction in progress				
Land	2,284,202			2,284,202
Total	2,284,202			2,284,202
Capital assets, being depreciated				
Governmental activities				
Bldgs and Improvements	981,975			981,975
Vehicles & Equipment	1,204,905	158,100		1,363,005
Infrastructure	7,706,659			7,706,659
Total Cap Assets	9,893,539	158,100		10,051,639
Less accumulated depreciation for:				
Buildings & Improve	399,953	27,265		427,218
Vehicles & Equip	1,139,251	42,082		1,181,333
Infrastructure	2,727,452	467,623		3,195,075
Total Accumulated Dep	4,266,656	536,970		4,803,626
Total Cap Assets, Net	5,626,883			5,248,013
Total Cap Assets, Net	7,911,085			7,532,215
Business-type activities				
Construction in progress				
Land	39,895			39,895
Total	39,895			39,895
Bldgs and Improvements	4,862,350			4,862,350
Vehicles & Equipment	585,482			585,482
Infrastructure	22,605,844			22,605,844
Total Cap Assets	28,053,676			28,053,676
Less accumulated depreciation for:				
Buildings & Improve	2,470,544	146,376		2,616,920
Vehicles & Equip	554,040	31,442		585,482
Infrastructure	7,971,371	1,130,293		9,101,664
Total Accumulated Dep	10,995,955	1,308,111		12,304,066
Total Cap Assets, Net	17,057,721			15,749,610
Total Cap Assets, Net	17,097,616			15,789,505

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

Governmental Activities:	
General government	49,535
Public safety	19,812
Street	467,623
Total	536,970
Business-type activities:	
Water and sewer	1,308,111

CITY OF OAKES  
Notes to Financial Statements- Continued

NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2020, the following changes occurred in liabilities reported in long-term debt:

	Payable 2019	Increases	Decreases	Payable 2020	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Notes payable	175,491		24,661	150,830	25,000
Bonds Payable	2,570,000		325,000	2,245,000	325,000
SRF Notes	577,000		107,000	470,000	112,000
TOTAL	3,322,491		456,661	2,865,830	462,000
BUSINESS-TYPE ACTIVITIES					
USDA Loan	6,183,694		180,967	6,002,727	182,481
Bonds Payable	330,000		45,000	285,000	45,000
SRF Notes	5,158,000		243,000	4,915,000	253,000
Notes payable	150,000		23,165	126,835	24,000
TOTAL	11,821,694		492,132	11,329,562	480,481

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
Refunding imp bonds- 2007	11/01/2023	4.00-4.30%	220,000
Refunding imp bonds- 2007	05/01/2022	4.00-4.25%	60,000
Refunding imp bonds- 2015	05/01/2025	1.5%	535,000
Refunding imp bonds- 2015	05/01/2030	1.5%	1,430,000
Total			2,245,000
Refunding imp bonds- 2015	05/01/2026	1.80-3.40%	285,000
Bank of ND	11/01/2054	3.00%	478,503
USDA bond	05/01/2042	3.25%	948,474
USDA bond	05/01/2041	3.75%	2,196,011
USDA bond	05/01/2043	2.75%	1,468,993
USDA bond	05/01/2054	3.00%	486,060
USDA bond	05/01/2046	3.00%	424,686
Total			6,002,727

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions. Special Assessment bonds are paid directly from debt service sinking funds. Special assessments are certified annually in amounts sufficient to pay debt service requirements. Whenever all special assessments appropriated and collected for a special assessment district are insufficient to pay principal and interest then due on special assessment improvement bonds issued against such improvement district, the city is required to levy a deficiency levy upon all taxable property in the City.



CITY OF OAKES  
Notes to Financial Statements- Continued

SRF NOTES PAYABLE

The City obtained financing from the State of North Dakota's State Revolving Loan Fund (SRF) to finance improvements to the City's utility systems. Details relative to the outstanding notes payable are shown below:

	Maturity Date	Interest Rate	Balance Outstanding
Water treatment bonds-1995	03/01/2026	2.5%	345,000
Water treatment bonds-1995	03/01/2023	2.5%	30,000
Water treatment bonds-1995	03/01/2022	2.5%	95,000
Total			470,000
Water Treatment-1998	09/01/2023	2.5%	90,000
Water treatment bonds-1995	03/01/2023	2.5%	29,000
Water treatment bonds-1995	03/01/2047	2.5%	210,000
Water treatment bonds-1995	03/01/2027	2.5%	101,000
Water treatment bonds-2019	03/01/2038	2.5%	2,670,000
Water treatment bonds-2019	03/01/2042	2.5%	910,000
Water treatment bonds-2019	03/01/2040	2.5%	905,000
Total			4,915,000

The annual long-term debt service requirements for bonds payable, as of December 31, 2020, are as follows:

Year Ending	Bonds Payable		SRF Notes Payable	
December 31	Principal	Interest	Principal	Interest
2021	370,000	84,190	112,000	11,750
2022	385,000	71,121	113,000	8,950
2023	365,000	57,938	65,000	6,125
2024	295,000	44,779	60,000	4,500
2025	300,000	34,708	60,000	3,000
2026-2030	815,000	73,226	60,000	1,500
TOTAL	2,530,000	365,961	470,000	35,825
2021	182,481	173,432	253,000	75,925
2022	187,820	168,093	260,000	71,610
2023	193,317	162,596	265,000	67,170
2024	198,900	157,012	226,000	62,655
2025	204,806	151,107	231,000	59,115
2026-2030	1,117,652	661,912	1,190,000	240,900
2031-2035	1,291,755	487,808	1,268,000	150,580
2036-2040	1,493,394	286,169	1,051,000	53,025
2041-2045	747,928	104,202	151,000	6,000
2046-2050	205,572	45,979	20,000	450
2049-2054	179,102	12,394		
TOTAL	6,002,727	2,410,704	4,915,000	787,430

CITY OF OAKES

Notes to Financial Statements- Continued

The City has a note payable that it used to pay for remodeling the community center. The original loan was for \$250,000 with an annual interest rate of 2.9%. The monthly payment for the loan is \$2,407 until September 2026.

The City has a note payable that it used to pay for water meters. The original loan was for \$150,000 with an annual interest rate of 3.8%. The annual payment for the loan is \$27,728 until August 2025.

NOTE 8: PENSION PLANS

North Dakota Public Employees Retirement System

The City participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. Following is a brief description of the plan:

PERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. PERS provides for retirement, disability and death benefits to plan members and beneficiaries. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employees accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

CITY OF OAKES

Notes to Financial Statements- Continued

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at the normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participants annual covered salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The City is required to contribute 7.12% of each participant's salary as the employer's share. The City is required to contribute 1.14% of each participating covered wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. The City's contributions to PERS for the fiscal years ending December 31, 2020, 2019, and 2018 were \$91,050, \$91,854, and \$93,966, respectively, equal to the required contributions for the year.

PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained on the NDPERS website.



CITY OF OAKES  
Notes to Financial Statements- Continued

NOTE 9: DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2019:

Street	6,980	Will be eliminated with transfers
2012-1 Phase 4	4	Will be eliminated with transfers and taxes
2010-2 JVG	46,505	Will be eliminated with transfers and specials
2016-2	52,925	Will be eliminated with transfers and taxes
Water	86,611	Will be eliminated with transfers and charges

NOTE 10: RISK MANAGEMENT

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The State Bonding Fund currently provides the City with blanket fidelity bond coverage for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.



CITY OF OAKES

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2020

City of Oakes  
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Schedule of Findings and Responses	3-4

# Harold J. Rotunda

## Certified Public Accountant

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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  
Independent Auditor's Report

Governing Board  
City of Oakes  
Oakes, North Dakota

I 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 City of Oakes as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated December 30, 2022.

### Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify two deficiencies in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency (2020-1 and 2020-2).

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Oakes's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under Government Auditing Standards.

## **City's Response to Findings**

City of Oakes's response to the finding identified in my audit is described in the accompanying schedule of findings. City of Oakes's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Fargo, North Dakota  
December 30, 2022



CITY OF OAKES  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2020

**2020-001 Segregation of Duties**

**Criteria**

To provide reasonable assurance that segregation of duties takes place while also taking into account the size of the City.

**Condition**

The City Auditor is responsible for all accounting functions involved. The employee handles all income of monies, prepares the receipts documents, prepares the deposits, issues all checks and distributes them, receives the bank statements and does the reconciliations. The employee also records the receipts and disbursements to the journals and maintains the general ledger. Considering the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

**Cause**

The City Auditor is the employee responsible for all functions and due to the City's size, they are unable to hire additional staff.

**Effect**

Lack of segregation of duties leads to a limited degree of internal control.

**Recommendation**

The City should separate the duties when it becomes feasible.

**Management's Response**

Some procedures to promote segregation of duties have been implemented. Funds are counted by other individuals prior to being given to the Auditor to receipt and deposit at the various financial institutions. The Council reviews and approves bills before payments are made. The Mayor reviews and signs all checks written. The City will formally segregate other duties when feasible.

CITY OF OAKES  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2020

**2020-002 Financial Statement Preparation**

**Criteria**

An appropriate system of internal controls requires that a City make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis of accounting. This requires the City's personnel to maintain a working knowledge of current modified cash basis of accounting required financial statement disclosures.

**Condition**

The City's auditor prepared the financial statements for the year ended. In addition, adjusting entries were proposed to bring the financial statements into compliance with the modified cash basis of accounting. An appropriate system of internal controls requires that a City must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with the modified cash basis. This requires the City's personnel to maintain a working knowledge of current accounting principles in accordance with the modified cash basis.

**Cause**

The City does not have the resources to prepare full modified cash basis financial statements.

**Effect**

The City currently does not maintain the working knowledge of current accounting principles for the modified cash basis and required financial statement disclosures to make a determination that financial statements are properly stated in compliance with the modified cash basis.

**Recommendation**

Compensating controls could be provided through client preparation of the financial statement preparation and/or review function.

**Management's Response**

Management agrees that it is currently not cost-effective.