

CITY OF ASHLEY
ASHLEY, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

CITY OF ASHLEY
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CITY OF ASHLEY
LIST OF OFFICIALS
DECEMBER 31, 2018

CITY COUNCIL

Office

Kyle Thiery
Darwin Golz
Kevin Forsman
Bruce Speidel
Joshua Wolff
Maureen Delzer

Mayor

EMPLOYEES:

Jolene Weisser

City Auditor

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

Governing Board
City of Ashley
Ashley, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and aggregate remaining fund information of City of Ashley as of and for the year ended December 31, 2018, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ashley as of December 31, 2018, 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 June 14, 2021, 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.

West Fargo, North Dakota
June 14, 2021

CITY OF ASHLEY
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
DECEMBER 31, 2018

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	(133,032.03)	654,648.78	521,616.75	96,218.31
Non-current assets:				
Capital assets (net of accumulated depreciation)	1,858,910.32	27,859.20	1,886,769.52	409,188.11
Total Assets	1,725,878.29	682,507.98	2,408,386.27	505,406.42
LIABILITIES				
Current liabilities:				
Non-current liabilities:				
Due within one year:				
Bonds payable	55,000.00	-	55,000.00	
Notes payable	14,955.88	-	14,955.88	24,000.00
Due after one year:				
Bonds payable	220,000.00	-	220,000.00	
Notes payable	48,223.42		48,223.42	597,005.95
Total liabilities	338,179.30	-	338,179.30	621,005.95
NET POSITION				
Net investment in capital assets	1,520,731.02	27,859.20	1,548,590.22	
Restricted for:				
Capital projects	78,923.50		78,923.50	
General government	55,006.50		55,006.50	
Unrestricted	(266,962.03)	654,648.78	387,686.75	(122,294.49)
Total Net Position	1,387,698.99	682,507.98	2,070,206.97	(122,294.49)

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

CITY OF ASHLEY
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018

	Expenses	Program Revenues		Revenue & Changes	Component Units
		Charges for Services	Operating grants and Contributions	in Net Position Governmental Activities	
Governmental activities:					
General government	162,127.56			(162,127.56)	19,212.43
Public safety	34,167.33			(34,167.33)	
Highways and streets	286,832.51	179,810.67	53,828.47	(53,193.37)	
Economic development	31,784.23			(31,784.23)	
Capital outlays	-			-	
Interest expense	4,254.39			(4,254.39)	28,795.47
Depreciation- Unallocated	-			-	32,518.27
Total Governmental Activities	519,166.02	179,810.67	53,828.47	(285,526.88)	80,526.17
Business-type activities					
Water	185,332.64	162,629.19		(22,703.45)	
Sewer	9,134.49	21,702.86		12,568.37	
Garbage	102,854.41	89,449.39		(13,405.02)	
Water tower	262.46	-		(262.46)	
Meter	1,885.00	3,375.00		1,490.00	
Utility	-	-		-	
Capital outlay	-			-	
Depreciation- Unallocated	-			-	
Total Business-type activities	299,469.00	277,156.44	-	(22,312.56)	
Total	818,635.02	456,967.11	53,828.47	(307,839.44)	(80,526.17)
Net expense		Governmental (285,526.88)	Business-type (22,312.56)	Total (307,839.44)	(80,526.17)
General Revenues					
Taxes:					
Property taxes		108,166.13		108,166.13	-
Sales taxes		56,346.89		56,346.89	
Special assessments		68,638.54		68,638.54	
State aid		54,486.75		54,486.75	-
Interest income		1,979.93	-	1,979.93	185.39
Charges for service		-		-	64,704.00
Other revenue		21,490.47	5,619.96	27,110.43	4,228.91
Total General Revenues		311,108.71	5,619.96	316,728.67	69,118.30
Transfers in (out)		(47,934.09)	47,934.09	-	
Change in Net Position		(22,352.26)	31,241.49	8,889.23	(11,407.87)
Net Position- January 1		1,410,051.25	651,266.49	2,061,317.74	(110,886.62)
Net Position- December 31		1,387,698.99	682,507.98	2,070,206.97	(122,294.49)

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

CITY OF ASHLEY
 BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
 DECEMBER 31, 2018

	GENERAL	STREET	WATERMAIN	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	32,633.91	(280,863.91)	(18,732.03)	133,930.00	(133,032.03)
Total Assets	32,633.91	(280,863.91)	(18,732.03)	133,930.00	(133,032.03)
LIABILITIES					
Total liabilities	-	-	-	-	-
FUND BALANCE					
Restricted for Capital Projects				78,923.50	78,923.50
Restricted for Debt Service				-	-
Restricted for general government			-	55,006.50	55,006.50
Unassigned	32,633.91	(280,863.91)	(18,732.03)	-	(266,962.03)
Total fund balance	32,633.91	(280,863.91)	(18,732.03)	133,930.00	(133,032.03)

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

CITY OF ASHLEY
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
 SHEET TO THE STATEMENT OF NET POSITION- MODIFIED CASH BASIS
 DECEMBER 31, 2018

Total Fund Balances for Governmental Funds (133,032.03)

Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of capital assets	3,378,334.00	
Less accumulated depreciation	1,519,423.68	
Net capital assets		1,858,910.32

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 position. Balances at year end are:

Bonds payable	(275,000.00)
SRF Notes payable	-
Notes payable	(63,179.30)

Total Net Position of Governmental Activities 1,387,698.99

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

CITY OF ASHLEY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2018

	GENERAL	STREET	WATERMAIN	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	89,776.09			18,390.04	108,166.13
Sales taxes	-			56,346.89	56,346.89
Special Assessments			68,638.54	-	68,638.54
Intergovernmental	43,661.21	53,749.64		10,904.37	108,315.22
Interest	1,979.93			-	1,979.93
Charges for services	11,421.83	168,388.84		0.00	179,810.67
Other	14,044.53	886.00		6,559.94	21,490.47
Total Revenues	160,883.59	223,024.48	68,638.54	92,201.24	544,747.85
Current:					
General government	117,155.37			44,972.19	162,127.56
Public safety	34,167.33			-	34,167.33
Highways and streets		125,764.34			125,764.34
Economic development			-	31,784.23	31,784.23
Capital outlays	-				-
Debt Service					
Principal		256,318.01	60,000.00		316,318.01
Interest expense			3,618.75		3,618.75
Total Expenditures	151,322.70	382,082.35	63,618.75	76,756.42	673,780.22
Excess revenues (expenditures)	9,560.89	(159,057.87)	5,019.79	15,444.82	(129,032.37)
Other Financing Sources (Uses):					
Transfers in	-	-		-	-
Transfers out	-	(47,934.09)	-	-	(47,934.09)
Bond proceeds	-	-		-	-
Total other financing sources and uses	-	(47,934.09)	-	-	(47,934.09)
Net change in fund balances	9,560.89	(206,991.96)	5,019.79	15,444.82	(176,966.46)
Fund balance- beginning	23,073.02	(73,871.95)	(23,751.82)	118,485.18	43,934.43
Fund balance- ending	32,633.91	(280,863.91)	(18,732.03)	133,930.00	(133,032.03)

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

CITY OF ASHLEY
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances- Total Governmental Funds (176,966.46)

The change in net position 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	-	
Current year depreciation expense	161,704.17	(161,704.17)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Debt issued, net of related premiums and discounts		
Principal retirement		316,318.37

Change in Net Position of Governmental Activities (22,352.26)

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

CITY OF ASHLEY
 STATEMENT OF NET POSITION- MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 DECEMBER 31, 2018

	Water & Sewer	Garbage	Total
ASSETS			
Current assets:			
Cash and cash equivalents	637,816.45	16,832.33	654,648.78
Non-current assets:			
Capital assets (net of accumulated depreciation)	27,859.20		27,859.20
Total Assets	665,675.65	16,832.33	682,507.98
LIABILITIES			
Current liabilities:			
			-
			-
			-
			-
Total liabilities	-	-	-
NET POSITION			
Net investment in capital assets	27,859.20		27,859.20
Restricted for:			
Capital projects			-
Debt service			-
Unrestricted	637,816.45	16,832.33	654,648.78
Total Net Position	665,675.65	16,832.33	682,507.98

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

CITY OF ASHLEY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Water & Sewer	Garbage	Total
OPERATING REVENUE			
Charges for services	187,707.05	89,449.39	277,156.44
OPERATING EXPENSES			
Salaries and benefits	74,410.49	40,415.11	114,825.60
Professional fees	20,683.59	19,755.31	40,438.90
Telephone	-	-	-
Contract services	-	23,116.26	23,116.26
Electricity	23,459.15	-	23,459.15
Supplies	12,726.04	5,899.75	18,625.79
Repairs and maintenance	11,242.45	8,422.79	19,665.24
Office expense	773.18	-	773.18
Lease expense	23,546.87	-	23,546.87
Depreciation	22,836.00	-	22,836.00
Miscellaneous	6,936.82	5,245.19	12,182.01
Total operating expenses	196,614.59	102,854.41	299,469.00
Operating income (loss)	(8,907.54)	(13,405.02)	(22,312.56)
NON-OPERATING REVENUE (EXPENSE)			
Property taxes	-	-	-
Interest income	-	-	-
Grant income	-	-	-
Interest expense	-	-	-
Capital outlay	-	-	-
Other	5,587.96	32.00	5,619.96
Total non-operating rev (exp)	5,587.96	32.00	5,619.96
Income (loss) before transfers	(3,319.58)	(13,373.02)	(16,692.60)
Transfers in	47,934.09	-	47,934.09
Transfers out	-	-	-
Change in Net Position	44,614.51	(13,373.02)	31,241.49
Net Position- January 1	621,061.14	30,205.35	651,266.49
Net Position- December 31	665,675.65	16,832.33	682,507.98

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

CITY OF ASHLEY
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2018

	Water & Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	187,707.05	89,449.39	277,156.44
Payments to suppliers	(99,368.10)	(62,439.30)	(161,807.40)
Payments to employees	(74,410.49)	(40,415.11)	(114,825.60)
Other receipts	5,587.96	32.00	5,619.96
Net cash provided by (used in) operating activities	19,516.42	(13,373.02)	6,143.40
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	47,934.09	-	47,934.09
Transfers to other funds	-	-	-
Net cash provided by (used in) noncapital financing activ	47,934.09	-	47,934.09
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	-	-
Principal paid on capital debt	-	-	-
Interest paid on capital debt	-	-	-
Debt proceeds	-	-	-
Net cash provided by (used in) capital and related financ	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	-	-	-
Net cash provided by (used in) investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	67,450.51	(13,373.02)	54,077.49
Balance- beginning of year	570,365.94	30,205.35	600,571.29
Balance- end of year	637,816.45	16,832.33	654,648.78
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	(8,907.54)	(13,405.02)	(22,312.56)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	22,836.00	-	22,836.00
Miscellaneous receipts (expense)	5,587.96	32.00	5,619.96
Net cash provided by operating activities	19,516.42	(13,373.02)	6,143.40

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

CITY OF ASHLEY
 COMBINING STATEMENT OF NET POSITION- COMPONENT UNITS
 DECEMBER 31, 2018

	LIBRARY	HOUSING AUTHORITY	TOTAL
ASSETS			
Cash and investments	12,477.02	83,741.29	96,218.31
Accounts receivable			-
Taxes receivable			-
Intergovernmental receivable			-
Contract for deed			-
Capital assets (net of accumulated depreciation)		409,188.11	409,188.11
Total Assets	12,477.02	492,929.40	505,406.42
LIABILITIES			
Accounts Payable			-
Salaries and benefits payable			-
Deferred revenue		6,695.00	6,695.00
Long-term liabilities:			
Due within one year:			
Bonds payable			-
Notes payable			-
Due after one year:			
Bonds payable		621,005.91	621,005.91
Notes payable			-
Total liabilities	-	627,700.91	627,700.91
NET POSITION			
Net investment in capital assets			-
Restricted for:			
Capital projects			-
Debt service			-
Unrestricted	12,477.02	(134,771.51)	(122,294.49)
Total Net Position	12,477.02	(134,771.51)	(122,294.49)

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

CITY OF ASHLEY
 COMBINING STATEMENT OF ACTIVITIES- COMPONENT UNITS
 YEAR ENDED DECEMBER 31, 2018

	LIBRARY	HOUSING AUTHORITY	TOTAL
Expenditures			
General government	6,254.64	12,957.79	19,212.43
Public safety		-	-
Highways and streets			-
Economic development			-
Other capital outlays		-	-
Interest expense		28,795.47	28,795.47
Depreciation- Unallocated		32,518.27	32,518.27
 Total Expenditures	 6,254.64	 74,271.53	 80,526.17
Revenue			
Property taxes		-	-
Intergovernmental	-		-
Interest income	-	185.39	185.39
Charges for service	-	64,704.00	64,704.00
Other revenue	4,228.91	-	4,228.91
 Total Revenues	 4,228.91	 64,889.39	 69,118.30
Change in Net Position	(2,025.73)	(9,382.14)	(11,407.87)
Net Position- January 1	14,502.75	(125,389.37)	(110,886.62)
Net Position- December 31	12,477.02	(134,771.51)	(122,294.49)

CITY OF ASHLEY
ASHLEY, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ashley (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 component units:

Ashley Library- The Library was organized to provide management of the library in Ashley. The Council appoints all Board members and approves its tax levy.

Housing Authority- The Ashley Housing Authority was organized to provide housing in the City. The Council approves all Board members and guarantees its debt.

CITY OF ASHLEY
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.

Watermain fund. 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.

CITY OF ASHLEY
Notes to Financial Statements- Continued

Highway Fund. The Highway fund is used to record revenues received for highway maintenance and repair and the related expenses.

The City reports the following major enterprise funds:

Water and Sewer Fund- 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

Government-wide Financial Statements. 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 ASHLEY

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.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of 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.

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. All government-wide financial statements would be presented on the accrual basis of accounting.

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

CITY OF ASHLEY

Notes to Financial Statements- Continued

All governmental funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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 the first day of October. 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 and Investments

Cash includes amounts in demand deposits and money market accounts. Investments consist of certificates of deposits 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 ASHLEY
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	50
Vehicles and equipment	10

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.

CITY OF ASHLEY
Notes to Financial Statements- Continued

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

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.

CITY OF ASHLEY
Notes to Financial Statements- Continued

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.

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 did not amend the City budget for 2018.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets

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.

CITY OF ASHLEY

Notes to Financial Statements- Continued

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.

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, 2018, the City's carrying amount of deposits was \$644,506. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$394,506 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 ASHLEY
Notes to Financial Statements- Continued

NOTE 4: PROPERTY TAXES

Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

The County treasurer acts as and 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.

CITY OF ASHLEY
Notes to Financial Statements- Continued

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental activities				
Infrastructure	2,378,837			2,378,837
Bldgs and Improvements	475,194			475,194
Vehicles & Equipment	524,303			524,303
Total Cap Assets	3,378,334			3,378,334
Less accumulated depreciation for:				
Infrastructure	594,709	118,942		713,651
Buildings & Improve	403,714	8,073		411,787
Vehicles & Equip	359,297	34,689		393,986
Total Accumulated Dep	1,357,720	161,704		1,519,424
Total Cap Assets, Net	2,020,614			1,858,910
Capital assets, being depreciated				
Business-type activities				
Bldgs and Improvements	296,066			296,066
Vehicles & Equipment	332,339			332,339
Total Cap Assets	628,405			628,405
Less accumulated depreciation for:				
Buildings & Improve	291,246	1,607		292,853
Vehicles & Equip	286,464	21,229		307,693
Total Accumulated Dep	577,710	22,836		600,546
Total Cap Assets, Net	50,695			27,859

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

Governmental Activities:	
General government	5,442
Public safety	
Highways and streets	<u>156,262</u>
Total	161,704
Business-type activities	
Water and sewer	22,836

CITY OF ASHLEY
Notes to Financial Statements- Continued

NOTE 6: LONG-TERM DEBT

Changes in Long-Term Debt during the year ended December 31, 2018:

	Payable 2017	Increases	Decreases	Payable 2018	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	335,000		60,000	275,000	55,000
Notes payable	319,498		256,319	63,179	14,956
TOTAL	654,498		316,319	338,179	
COMPONENT UNIT- HOUSING AUTHORITY					
Bonds payable	642,893		21,887	621,006	24,000

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
GOVERNMENTAL ACTIVITIES			
Improvement bond 2012	06/01/2023	.5-2.75%	275,000
NOTES PAYABLE-COMPONENT UNIT			
Improvement bond 2012	06/01/2023	.5-2.75%	621,006

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.

GOVERNMENTAL ACTIVITIES		
Year Ending	Bonds Payable	
December 31	Principal	Interest
2019	55,000	6,188
2020	55,000	5,225
2021	55,000	3,987
2022	55,000	2,750
2023	55,000	1,513
TOTAL	275,000	19,663

CITY OF ASHLEY
Notes to Financial Statements- Continued

NOTES PAYABLE

Notes payable due in semi-annual installments of \$12,378, including interest at 4.37%, through October 2020. Note used for loader. 63,179

2019	24,756
2020	24,756
2021	<u>24,756</u>
	74,268
Less amount representing interest	<u>11,089</u>
Principal balance remaining	63,179

NOTES PAYABLE-COMPONENT UNIT

Notes payable to Bremer Bank, due in monthly installments of \$4,224, including interest at 3.03%, through October 2028. Note used for apartments. 621,006

2019	50,688
2020	50,688
2021	50,688
2022	50,688
2023	50,688
Thereafter	<u>506,880</u>
	760,320
Less amount representing interest	<u>139,314</u>
Principal balance remaining	621,006

NOTE 7. DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2018:
Watermain 18,732 Will be eliminated with specials/transfers.

Street 280,864 Will be eliminated with taxes/transfers

NOTE 8: PENSION PLANS

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:

CITY OF ASHLEY

Notes to Financial Statements- Continued

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.

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.

CITY OF ASHLEY
Notes to Financial Statements- Continued

The City's contributions to PERS for the fiscal years ending December 31, 2018, 2017, and 2016 were \$10,708, \$11,740, and \$10,826, 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.

NOTE 9: TRANSFERS

The City transfers utility revenue to the general fund. The City also transfers sales tax revenue per the ordinance. The City also transfers to the general fund to consolidate funds.

The City transferred \$47,934 from the Water Fund to the Street Fund.

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 (NDRF), 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 NDRF for its general liability and automobile insurance coverage. The coverage by NDRF 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 ASHLEY

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2018

City of Ashley
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Harold J. Rotunda

Certified Public Accountant

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 Ashley
Ashley, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ashley as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated June 14, 2021.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Ashley'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 (2018-1 and 2018-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ashley'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 Ashley's response to the finding identified in my audit is described in the accompanying schedule of findings. City of Ashley'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.

Harold Rotunda, CPA
June 14, 2021

CITY OF ASHLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

2018-001 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 ASHLEY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2018

**2018-002 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.