

CITY OF ELLENDALE  
ELLENDALE, NORTH DAKOTA

FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2018

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

CITY COUNCIL

Office

Matt Thorpe

Mayor

Richard Waldholm

Commissioners

Don Flaherty

Bruce Crabtree

Dawn Bauer

Richard Reis/ Thomas Denison

Justin Meidinger

EMPLOYEES:

Candace Middlestead

Auditor/Administrator

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

Governing Board  
City of Ellendale  
Ellendale, 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 Ellendale 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 Ellendale 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 December 30, 2019, 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  
December 30, 2019

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

	Governmental Activities	Business-type Activities	Total	Component unit
<b>ASSETS</b>				
Current assets:				
Cash and investments	1,473,809.34	1,162,412.80	2,636,222.14	52,141.88
Non-current assets:				
Capital assets (net of accumulated depreciation)	6,404,683.19	230,545.84	6,635,229.03	644,474.99
<b>Total Assets</b>	<b>7,878,492.53</b>	<b>1,392,958.64</b>	<b>9,271,451.17</b>	<b>696,616.87</b>
<b>LIABILITIES</b>				
Current liabilities				
Non-current liabilities:				
Due within one year:				-
Bonds payable	178,454.00		178,454.00	-
Notes payable	37,000.00		37,000.00	-
Due after one year:				
Bonds payable	1,238,546.00		1,238,546.00	630,671.51
Notes payable	377,000.00		377,000.00	-
<b>Total liabilities</b>	<b>1,831,000.00</b>	<b>-</b>	<b>1,831,000.00</b>	<b>630,671.51</b>
<b>NET POSITION</b>				
Net investment in capital assets	4,573,683.19	230,545.84	4,804,229.03	13,803.48
Restricted for:				
Capital projects	256,330.10		256,330.10	
Debt service	299,135.92		299,135.92	
Unrestricted	918,343.32	1,162,412.80	2,080,756.12	52,141.88
<b>Total net position</b>	<b>6,047,492.53</b>	<b>1,392,958.64</b>	<b>7,440,451.17</b>	<b>65,945.36</b>

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

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

		Program Revenues		Revenue & Changes in Net Position	
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities	Component unit
Governmental activities:					
General government	350,663.82			(350,663.82)	11,188.51
Public safety	143,440.85			(143,440.85)	-
Highways and streets	312,068.57		-	(312,068.57)	-
Economic development	155,828.22			(155,828.22)	-
				-	-
Interest expense	38,151.32			(38,151.32)	29,252.11
				-	16,524.99
Total Governmental Activities	1,000,152.78	-	-	(1,000,152.78)	56,965.61
Business-type activities					
Water	277,114.73	282,700.88		5,586.15	
Sewer	83,091.91	108,950.09		25,858.18	
Garbage	193,180.13	229,070.66		35,890.53	
Penalty	435.00	-		(435.00)	
Meter	-	8,875.78		8,875.78	
Surcharge	-	34,910.88		34,910.88	
Ambulance	195,375.49	106,394.73		(88,980.76)	
		-		-	
				-	
Total Business-type activities	749,197.26	770,903.02	-	21,705.76	-
Total	1,749,350.04	770,903.02	-	(978,447.02)	56,965.61
Net expense		Governmental (1,000,152.78)	Business-type 21,705.76	Total (978,447.02)	
General Revenues					
Taxes:					
Property taxes		247,975.91	53,823.23	301,799.14	
Sales taxes		270,344.01		270,344.01	
Special assessments		352,400.27		352,400.27	
Licenses and permits		13,784.00		13,784.00	
Intergovernmental		1,179,884.79	30,052.00	1,209,936.79	
Interest income		12,040.68	6,823.42	18,864.10	
Other revenue		239,599.04	30,419.67	270,018.71	69,306.39
Total General Revenues		2,316,028.70	121,118.32	2,437,147.02	69,306.39
Transfers in (out)		-	-	-	
Change in Net Position		1,315,875.92	142,824.08	1,458,700.00	12,340.78
Net Position- January 1		4,731,616.61	1,250,134.55	5,981,751.16	53,604.58
Net Position- December 31		6,047,492.53	1,392,958.63	7,440,451.16	65,945.36

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

## CITY OF ELLENDALE

## BALANCE SHEET- MODIFIED CASH BASIS- GOVERNMENTAL FUNDS

DECEMBER 31, 2018

	GENERAL	SALES TAX	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and investments	(63,164.15)	679,468.89	256,330.10	601,174.50	1,473,809.34
Total Assets	(63,164.15)	679,468.89	256,330.10	601,174.50	1,473,809.34
<b>LIABILITIES</b>					
Total liabilities	-	-	-	-	-
<b>FUND BALANCE</b>					
Restricted for Capital Projects			256,330.10	-	256,330.10
Restricted for Debt Service				299,135.92	299,135.92
Restricted for other purposes		679,468.89		671,855.37	1,351,324.26
Unassigned	(63,164.15)			(369,816.79)	(432,980.94)
Total fund balance	(63,164.15)	679,468.89	256,330.10	601,174.50	1,473,809.34
Total liabilities and fund balance	(63,164.15)	679,468.89	256,330.10	601,174.50	1,473,809.34

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



CITY OF ELLENDALE  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018

Total Fund Balances for Governmental Funds	1,473,809.34
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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	8,932,045.89	
Less accumulated depreciation	2,527,362.70	
Net capital assets		6,404,683.19

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:

USDA Payable	(1,132,000.00)
Bonds payable	(285,000.00)
SRF Notes payable	(414,000.00)

Total Net Position of Governmental Activities	6,047,492.53
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The accompanying notes are an integral part of these financial statements.

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

	GENERAL	SALES TAX	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	177,903.11			70,072.80	247,975.91
Sales taxes		270,344.01		-	270,344.01
Special Assessments			203,702.04	148,698.23	352,400.27
Intergovernmental	246,239.86		752,818.86	180,826.07	1,179,884.79
Interest	5,692.60	1,848.44	-	4,499.64	12,040.68
Charges for services	34,767.59			135,080.85	169,848.44
Other	22,392.67	30,334.11		30,807.82	83,534.60
Total Revenues	486,995.83	302,526.56	956,520.90	569,985.41	2,316,028.70
Current:					
General government	282,739.06			67,924.76	350,663.82
Public safety	133,007.07			10,433.78	143,440.85
Highways and streets		3,325.00		184,792.69	188,117.69
Economic development		155,828.22		0.00	155,828.22
Capital outlays		16,006.61	883,276.15	188,993.96	1,088,276.72
Debt Service					
Principal			1,132,000.00	185,000.00	1,317,000.00
Interest expense			13,310.14	24,841.18	38,151.32
Total Expenditures	415,746.13	175,159.83	2,028,586.29	661,986.37	3,281,478.62
Excess revenues (expenditures)	71,249.70	127,366.73	(1,072,065.39)	(92,000.96)	(965,449.92)
Other Financing Sources (Uses):					
Transfers in				-	-
Transfers out	-	-		-	-
Bond proceeds			1,132,000.00	-	1,132,000.00
Total other financing sources and uses	-	-	1,132,000.00	-	1,132,000.00
Net change in fund balances	71,249.70	127,366.73	59,934.61	(92,000.96)	166,550.08
Fund balance- beginning	(134,413.85)	552,102.16	196,395.49	693,175.46	1,307,259.26
Fund balance- ending	(63,164.15)	679,468.89	256,330.10	601,174.50	1,473,809.34

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

CITY OF ELLENDALE  
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances- Total Governmental Funds	166,550.08
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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	1,075,205.85	
Current year depreciation expense	110,880.01	964,325.84

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.

Bonds payable	1,282,000.00
SRF Notes payable	35,000.00
USDA proceeds	(1,132,000.00)

Change in Net Position of Governmental Activities	1,315,875.92
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The accompanying notes are an integral part of these financial statements.

CITY OF ELLENDALE  
STATEMENT OF NET POSITION- MODIFIED CASH BASIS  
PROPRIETARY FUNDS

DECEMBER 31, 2018	Utilities	Ambulance	Surcharge	Total
<b>ASSETS</b>				
Current assets:				
Cash, cash equivalents and investments	789,053.98	111,266.63	262,092.19	1,162,412.80
Noncurrent assets:				
Capital assets (net of accumulated depreciation)	230,545.84			230,545.84
Total Assets	1,019,599.82	111,266.63	262,092.19	1,392,958.64
<b>LIABILITIES</b>				
Current liabilities				
Non-current liabilities:				
Total liabilities	-	-	-	-
<b>NET POSITION</b>				
Net investment in capital assets	230,545.84		-	230,545.84
Restricted for:	-			-
Capital projects	-			-
Debt service	-			-
Unrestricted	789,053.98	111,266.63	262,092.19	1,162,412.80
Total net position	1,019,599.82	111,266.63	262,092.19	1,392,958.64

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

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

	Utilities	Ambulance	Surcharge	Total
<b>OPERATING REVENUE</b>				
Charges for services	629,597.41	106,394.73	34,910.88	770,903.02
<b>OPERATING EXPENSES</b>				
Salaries and benefits	146,641.60	162,726.59	-	309,368.19
Office	9,966.66	1,270.70	-	11,237.36
Insurance	5,311.87	1,832.04	-	7,143.91
Contract services	304,650.16	2,751.00	-	307,401.16
Electricity	21,787.10	-	-	21,787.10
Supplies	-	16,976.59	-	16,976.59
Repairs and maintenance	29,953.75	1,438.48	-	31,392.23
Small equipment	-	-	-	-
Telephone	-	1,065.87	-	1,065.87
Depreciation	28,005.87	-	-	28,005.87
Miscellaneous	7,504.75	7,314.22	-	14,818.97
Total operating expenses	553,821.76	195,375.49	-	749,197.25
Operating income (loss)	75,775.65	(88,980.76)	34,910.88	21,705.77
<b>NON-OPERATING REVENUE (EXPENSE)</b>				
Property taxes	-	53,823.23	-	53,823.23
Interest income	4,140.51	274.64	2,408.27	6,823.42
Grant income	-	30,052.00	-	30,052.00
Interest expense	-	-	-	-
Capital outlay	-	-	-	-
Other	22,451.90	7,967.77	-	30,419.67
Total non-operating rev (exp)	26,592.41	92,117.64	2,408.27	121,118.32
Income (loss) before transfers	102,368.06	3,136.88	37,319.15	142,824.09
Transfers in	-	40,000.00	-	40,000.00
Transfers out	-	(40,000.00)	-	(40,000.00)
Change in net position	102,368.06	3,136.88	37,319.15	142,824.09
Net Position- January 1	917,231.76	108,129.75	224,773.04	1,250,134.55
Net Position- December 31	1,019,599.82	111,266.63	262,092.19	1,392,958.64

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

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

	Utilities	Ambulance	Surcharge	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	629,597.41	106,394.73	34,910.88	770,903.02
Payments to suppliers	(379,174.29)	(32,648.90)	-	(411,823.19)
Payments to employees	(146,641.60)	(162,726.59)	-	(309,368.19)
Other receipts	22,451.90	91,843.00	-	114,294.90
Net cash provided by (used in) operating activi	126,233.42	2,862.24	34,910.88	164,006.54
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	-	40,000.00	-	40,000.00
Transfers from other funds	-	(40,000.00)	-	(40,000.00)
Net cash provided by (used in) noncapital fina	-	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	-	-	-	-
Principal paid on capital debt	-	-	-	-
Interest paid on capital debt	-	-	-	-
Net cash provided by (used in) capita	-	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	4,140.51	274.64	2,408.27	6,823.42
Net cash provided by (used in) investing activi	4,140.51	274.64	2,408.27	6,823.42
Net increase (decrease) in cash and cash equival	130,373.93	3,136.88	37,319.15	170,829.96
Balance- beginning of year	658,680.05	108,129.75	224,773.04	991,582.84
Balance- end of year	789,053.98	111,266.63	262,092.19	1,162,412.80
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	75,775.65	(88,980.76)	34,910.88	21,705.77
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	28,005.87			28,005.87
Change in assets and liabilities:				
Refundable deposits				-
Miscellaneous receipts (expense)	22,451.90	91,843.00	-	114,294.90
Net cash provided by operating activi	126,233.42	2,862.24	34,910.88	164,006.54

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

## CITY OF ELLENDALE

## COMBINING STATEMENT OF NET POSITION- COMPONENT UNITS- MODIFIED CASH BASIS

DECEMBER 31, 2018

	HOUSING AUTHORITY	TOTAL
<b>ASSETS</b>		
Cash and investments	- 52,141.88	52,141.88
		-
		-
		-
Capital assets (net of accumulated depreciation)	644,474.99	644,474.99
Total Assets	- 696,616.87	696,616.87
<b>LIABILITIES</b>		
Accounts Payable	-	-
		-
Long-term liabilities:		
Due within one year:		-
Bonds payable		-
Notes payable		-
Due after one year:		
Bonds payable	630,671.51	630,671.51
Notes payable		-
Total liabilities	- 630,671.51	630,671.51
<b>NET POSITION</b>		
Net investment in capital assets	13,803.48	13,803.48
Restricted for:		
Capital projects		-
Debt service		-
Unrestricted	- 52,141.88	52,141.88
Total net position	- 65,945.36	65,945.36

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



CITY OF ELLENDALE  
COMBINING STATEMENT OF ACTIVITIES- COMPONENT UNITS- MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2018

		HOUSING AUTHORITY	TOTAL
Expenditures			
General government		11,188.51	11,188.51
Public safety	-		-
Highways and streets			-
Economic development			-
Other capital outlays			-
Interest expense		29,252.11	29,252.11
Depreciation- Unallocated		16,524.99	16,524.99
Total Expenditures	-	56,965.61	56,965.61
Revenue			
Property taxes		-	-
Intergovernmental	-		-
Charges for services		69,306.39	69,306.39
Miscellaneous	-		-
Interest income	-	-	-
Total Revenues	-	69,306.39	69,306.39
Change in Net Position	-	12,340.78	12,340.78
Net Position- January 1	-	53,604.58	53,604.58
Net Position- December 31	-	65,945.36	65,945.36



CITY OF ELLENDALE  
ELLENDALE, NORTH DAKOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ellendale (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 these criteria, there is one component units: Ellendale Housing Authority- The Housing Authority is a non-profit corporation formed for the purpose of providing funds to finance improvements on City property and for leasing property from the City. The directors of the Authority are appointed by the Mayor. The activity of the Authority are discretely presented. The Authority does not issue separate statements.

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.

CITY OF ELLENDALE

Notes to Financial Statements- Continued

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 fund:

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.

Sales Tax- The Sales tax funds are used to account for economic development activity for the City. Primary revenue sources are sales taxes and loan repayments.

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 ELLENDALE

Notes to Financial Statements- Continued

The City reports the following major enterprise funds:

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

Ambulance- accounts for the operating activities of the City's ambulance services.

Surcharge- accounts for the collection of surcharge fees.

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.

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.

CITY OF ELLENDALE

Notes to Financial Statements- Continued

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 ELLENDALE

### 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 ELLENDALE

### 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.

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

CITY OF ELLENDALE

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 ELLENDALE

### 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 did not amend the general fund budget.

##### 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.

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 ELLENDALE

### 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, 2018, the City's carrying amount of deposits was \$2,636,222. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,386,222 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 ELLENDALE

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.

NOTE 5: TRANSFERS

Transfer are used to 1) move unrestricted general fund 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 fund as debt service principal and interest payments become due.

	Transfers In	Transfers Out
Ambulance Reserve	40,000	
Ambulance		40,000

CITY OF ELLENDALE  
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, 2018:

	Balance January 1	Increases	Decreases	Balance December 31
Capital assets, being depreciated				
Governmental activities				
Infrastructure	5,342,422	1,075,206		6,417,628
Ellendale Acres	109,651			109,651
Bldgs and Improvements	1,821,453			1,821,453
Vehicles & Equipment	583,314			583,314
Total Cap Assets	7,856,840	1,075,206		8,932,046
Less accumulated depreciation for:				
Buildings & Improve	1,506,255	15,426		1,521,681
Vehicles & Equip	426,346	26,328		452,674
Infrastructure	483,882	69,126		553,008
Total Accumulated Dep	2,416,483	110,880		2,527,363
Total Cap Assets, Net	5,440,357			6,404,683
Capital assets, being depreciated				
Business-type activities				
Bldgs and Improvements	669,380			669,380
Vehicles & Equipment	374,837			374,837
Total Cap Assets	1,044,217			1,044,217
Less accumulated depreciation for:				
Buildings & Improve	507,197	7,212		514,409
Vehicles & Equip	278,468	20,793		299,262
Total Accumulated Dep	785,665	28,005		813,671
Total Cap Assets, Net	258,552			230,546

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

Governmental Activities:

General government	15,426
Public safety	4,529
Public works	21,799
Infrastructure	69,126
Total	110,880

Business-type activities

Water and sewer	28,005
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## CITY OF ELLENDALE

## Notes to Financial Statements- Continued

## NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year the following changes occurred in liabilities reported in long-term debt:

	Payable 2017	Increases	Decreases	Payable 2018	Due Within One Year
Bonds Payable	1,567,000		1,282,000	285,000	150,000
SRF Notes	449,000		35,000	414,000	37,000
USDA		1,132,000		1,132,000	28,454
TOTAL	2,016,000	1,132,000	1,317,000	1,831,000	

Debt payable at December 31, 2018, is comprised of the following individual issues:

Bonds Payable:			
Refunding improvement	05/01/2028	4.05-4.80%	145,000
Refunding improvement	05/01/2029	4.05-4.50%	<u>140,000</u>
Total			285,000

USDA Loan	05/01/2048	1.875%	1,132,000
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## SRF NOTES PAYABLE

Refunding improvement	05/01/2028	2.50%	414,000
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The annual long-term debt service requirements for bonds payable, as of December 31, 2018, are as follows:

## GOVERNMENTAL ACTIVITIES

Year Ending	Bonds Payable		SRF Notes Payable		USDA	
December 31	Principal	Interest	Principal	Interest	Principal	Interest
2019	150,000	8,867	37,000	10,350	28,454	21,230
2020	10,000	5,977	40,000	9,425	28,988	20,696
2021	15,000	5,471	40,000	8,428	29,531	20,153
2022	15,000	4,826	35,000	7,425	30,084	19,600
2023	15,000	4,144	40,000	6,425	30,649	19,035
2024-2028	75,000	13,725	217,000	16,600	162,084	86,336
2029	20,000	480			177,860	70,560
					195,172	53,248
					214,168	34,252
					235,010	13,090
TOTAL	285,000	39,348	414,000	58,650	1,132,000	358,200

## NOTE 8. DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2018:

General	63,164	Will be eliminated with taxes/transfers.
Highway	183,845	Will be eliminated with taxes/transfers.
Equip repl	54,506	Will be eliminated with taxes/transfers.
Tif district	131,466	Will be eliminated with taxes/transfers.

CITY OF ELLENDALE

Notes to Financial Statements- Continued

NOTE 9: 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.

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.

CITY OF ELLENDALE

Notes to Financial Statements- Continued

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 had agreed to pay 100% of the member assessments in lieu of a salary increase. 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, 2018, 2017, and 2016 were \$34,058, \$31,633, and \$28,929, 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 <http://ndpers.nd.gov/about/financial/annual-report-archive/>

NOTE 10: CONTINGENCIES

The City has agreed to an operation and maintenance deficit agreement for the Ellendale Housing Authority. This agreement guarantees the City will reimburse the Authority all amounts incurred for operating expenses if the Authority has insufficient funds in its operating account. The Authority agrees to reimburse the City for funds advanced when it has the funds available.

CITY OF ELLENDALE

Notes to Financial Statements- Continued

NOTE 11: 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 in the amount of \$1,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The City 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 ELLENDALE

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2018



City of Ellendale  
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# 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

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Governing Board  
City of Ellendale  
Ellendale, 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 Ellendale 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 December 30, 2019.

### Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Ellendale'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 Ellendale'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 Ellendale's response to the finding identified in my audit is described in the accompanying schedule of findings. City of Ellendale'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  
December 30, 2019

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

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Business-type Activities	Unmodified
Discretely presented component units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	Yes	<u>X</u>	No
Significant deficiencies identified not Considered to be material weaknesses	<u>X</u>	Yes	No
Noncompliance material to financial statements Noted?	Yes	<u>X</u>	No

Section II- Financial Statement Findings

**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.

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

**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.

**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.