

**CITY OF PORTLAND
PORTLAND, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Mayor and Council Members of
the City Council
Portland, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Portland, North Dakota, 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 2. 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Summary of Opinion Units

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Business Type Activities	Adverse
Governmental Funds-all major funds	Unmodified
Governmental Funds-Non Major Funds Aggregate Combined	Unmodified
Water Operating Fund	Adverse
Sewer Operating Fund	Adverse
Garbage Operating Fund	Unmodified
Non-Major Enterprise Funds	Unmodified

Basis for Adverse Opinion on Governmental Activities, Business Type Activities and Proprietary Funds

As discussed in Note 2 to the financial statements, management has not recorded capital assets and the related depreciation expense for those assets in the governmental activities, business type activities and water operating and sewer operating proprietary funds. Accounting principles applicable to the City's modified cash basis of accounting require that capital assets, and the related depreciation expense be presented. The amount by which this would affect the assets, net position and expenses of the governmental activities, business type activities and the water operating and sewer operating proprietary funds has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 2, the modified cash basis financial position of the governmental activities, business type activities, water operating proprietary fund, and sewer operating proprietary fund of the City of Portland, North Dakota as of December 31, 2018, and the changes in financial position for the year then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of each major governmental fund, the garbage operating fund, and the aggregate remaining fund information of the City of Portland, North Dakota, as of December 31, 2018, and the respective changes in modified cash basis financial position and cash flows - modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 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. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland, North Dakota's basic financial statements. The budgetary comparison schedules and the combining non-major governmental fund financial statements and non-major enterprise fund financial statements which are the responsibility of management are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules and combining non-major fund financial statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2020, on our consideration of the City of Portland, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the effectiveness of the City of Portland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Portland, North Dakota's internal control over financial reporting and compliance.



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

August 31, 2020

BASIC FINANCIAL STATEMENTS

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2018

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 75,258	\$ 45,932	\$ 121,190
Restricted Cash	-	27,203	27,203
Investments	144,220	54,949	199,169
Internal Balances	262,273	(262,273)	-
Total Current Assets	481,751	(134,189)	347,562
 TOTAL ASSETS	 \$ 481,751	 \$ (134,189)	 \$ 347,562
LIABILITIES			
Current Liabilities			
Other Payables	\$ -	\$ 6,960	\$ 6,960
Total Current Liabilities	-	6,960	6,960
Long-term Liabilities			
Current Portion			
Bonds Payable	192,141	-	192,141
Loans Payable	14,144	-	14,144
Revenue Bonds Payable	-	49,292	49,292
Non-current Portion			
Bonds Payable	1,621,404	-	1,621,404
Revenue Bonds Payable	-	281,595	281,595
Total Long-term Liabilities	1,827,689	330,887	2,158,576
 TOTAL LIABILITIES	 1,827,689	 337,847	 2,165,536
NET POSITION			
Restricted			
Debt Service	610,271	27,203	637,474
Other	117,792	-	117,792
Unrestricted (Deficit)	(2,074,001)	(499,239)	(2,573,240)
 TOTAL NET POSITION	 \$ (1,345,938)	 \$ (472,036)	 \$ (1,817,974)

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Current							
General Government	\$ 111,919	\$ 6,975	\$ -	\$ -	\$ (104,944)	\$ -	\$ (104,944)
Public Safety	72,056	-	-	-	(72,056)	-	(72,056)
Public Works	80,616	-	-	-	(80,616)	-	(80,616)
Capital Outlay	95	-	-	-	(95)	-	(95)
Debt Service:							
Interest and Service Charges	49,083	-	1,387	-	(47,696)	-	(47,696)
Total Governmental Activities	<u>313,769</u>	<u>6,975</u>	<u>1,387</u>	<u>-</u>	<u>(305,407)</u>	<u>-</u>	<u>(305,407)</u>
Business-Type Activities							
Water	134,758	157,618	-	-	-	22,860	22,860
Sewer	50,240	73,539	-	-	-	23,299	23,299
Garbage	46,157	49,111	-	-	-	2,954	2,954
Non-Major Enterprise Funds	-	3,483	-	-	-	3,483	3,483
Total Business-Type Activities	<u>231,155</u>	<u>283,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,596</u>	<u>52,596</u>
Total Primary Government	<u>\$ 544,924</u>	<u>\$ 290,726</u>	<u>\$ 1,387</u>	<u>\$ -</u>	<u>(305,407)</u>	<u>52,596</u>	<u>(252,811)</u>
General Revenues:							
Taxes					167,509	-	167,509
Special Assessments					229,029	-	229,029
Intergovernmental					45,917	-	45,917
Interest					2,006	510	2,516
Miscellaneous Revenue					3,790	-	3,790
Total General Revenues and Transfers					<u>448,251</u>	<u>510</u>	<u>448,761</u>
Changes in Net Position					142,844	53,106	195,950
Net Position, January 1					(1,488,782)	(525,142)	(2,013,924)
Net Position, December 31					<u>\$ (1,345,938)</u>	<u>\$ (472,036)</u>	<u>\$ (1,817,974)</u>

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	Special Revenue Funds			Debt Service Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Sales Tax - City Fund	Highway Fund	Street/Storm Sewer 1998-1,2 Fund	TIF Fund	2014 Street Improvement		
ASSETS								
Cash and Cash Equivalents	\$ 75,258	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 75,258
Investments	-	-	-	144,220	-	-	-	144,220
Due From Other Funds	13,115	\$ 164,426	-	178,822	-	\$ 287,229	194,153	837,745
Total Assets	\$ 88,373	\$ 164,426	\$ -	\$ 323,042	\$ -	\$ 287,229	\$ 194,153	\$ 1,057,223
LIABILITIES								
Due to Other Funds	400,252	\$ -	\$ 28,467	\$ -	\$ 146,753	\$ -	\$ -	\$ 575,472
Total Liabilities	400,252	-	28,467	-	146,753	-	-	575,472
FUND BALANCE								
Restricted:								
Debt Service	-	-	-	323,042	-	287,229	-	610,271
City Special Assessments	-	-	-	-	-	-	56,559	56,559
Emergencies	-	-	-	-	-	-	20,681	20,681
Penalty and Interest	-	-	-	-	-	-	22,951	22,951
Special assessment deficiency	-	-	-	-	-	-	17,601	17,601
Assigned	13,115	164,426	-	-	-	-	76,361	253,902
Unassigned	(324,994)	-	(28,467)	-	(146,753)	-	-	(500,214)
Total Fund Balance (Deficit)	(311,879)	164,426	(28,467)	323,042	(146,753)	287,229	194,153	481,751
Total Liabilities and Fund Balance	\$ 88,373	\$ 164,426	\$ -	\$ 323,042	\$ -	\$ 287,229	\$ 194,153	\$ 1,057,223

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2018

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

Total fund balance-governmental funds	\$ 481,751
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. These long-term liabilities consisted of the following:	
Bonds Payable	\$ (1,813,545)
Loans Payable	(14,144)
	<u>(1,827,689)</u>
Total net position-governmental activities	<u>\$ (1,345,938)</u>

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue Funds			Debt Service Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Sales Tax - City Fund	Highway Fund	Street/Storm Sewer 1998-1,2 Fund	TIF Fund	2014 Street Improvement		
REVENUES								
Taxes	\$ 79,309	\$ 34,559	\$ 36,344	\$ -	\$ -	\$ -	\$ 17,297	\$ 167,509
Special Assessments	-	-	-	-	2,470	221,555	5,004	229,029
Licenses and Permits	6,975	-	-	-	-	-	-	6,975
Intergovernmental	45,917	-	-	-	-	-	-	45,917
Interest	61	-	-	1,945	-	-	-	2,006
Other Revenue	3,790	-	-	-	1,387	-	-	5,177
Total Revenues	136,052	34,559	36,344	1,945	3,857	221,555	22,301	456,613
EXPENDITURES								
Current:								
General Government	91,442	20,477	-	-	-	-	-	111,919
Public Safety	72,056	-	-	-	-	-	-	72,056
Public Works	19,191	-	61,425	-	-	-	-	80,616
Capital Outlay	95	-	-	-	-	-	-	95
Debt Service:								
Principal Retirement	13,807	-	-	-	11,937	180,000	-	205,744
Interest and Service Charges	561	-	-	-	3,805	44,717	-	49,083
Total Expenditures	197,152	20,477	61,425	-	15,742	224,717	-	519,513
Revenues Over (Under) Expenditures	(61,100)	14,082	(25,081)	1,945	(11,885)	(3,162)	22,301	(62,900)
OTHER FINANCING SOURCES (USES)								
Operating Transfers In	-	-	-	-	-	-	-	-
Operating Transfers (Out)	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-	-	-
Net Change in Fund Balance	(61,100)	14,082	(25,081)	1,945	(11,885)	(3,162)	22,301	(62,900)
Fund Balance - January 1	(250,779)	150,344	(3,386)	321,097	(134,868)	290,391	171,852	544,651
Fund Balance - December 31	\$ (311,879)	\$ 164,426	\$ (28,467)	\$ 323,042	\$ (146,753)	\$ 287,229	\$ 194,153	\$ 481,751

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Net change in fund balance- total governmental funds	\$ (62,900)
Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the statement of net position.	
Principal debt payments	<u>205,744</u>
Net change in net position of governmental activities	<u>\$ 142,844</u>

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2018

	Business-type Activities				Total Enterprise Funds
	Enterprise Funds				
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	Non-major Enterprise Fund	
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 45,932	\$ -	\$ -	\$ -	\$ 45,932
Restricted Cash	-	-	-	27,203	27,203
Investments	54,949	-	-	-	54,949
Due From Other Funds	-	18,790	17,017	100,596	136,403
Total Current Assets	<u>100,881</u>	<u>18,790</u>	<u>17,017</u>	<u>127,799</u>	<u>264,487</u>
TOTAL ASSETS	<u>\$ 100,881</u>	<u>\$ 18,790</u>	<u>\$ 17,017</u>	<u>\$ 127,799</u>	<u>\$ 264,487</u>
LIABILITIES					
Current Liabilities					
Due to Other Funds	\$ 398,676	\$ -	\$ -	\$ -	\$ 398,676
Customer Deposits	-	-	-	6,960	6,960
Current Portion of Long-term Debt	30,792	18,500	-	-	49,292
Total Current Liabilities	<u>429,468</u>	<u>18,500</u>	<u>-</u>	<u>6,960</u>	<u>454,928</u>
Long-term Liabilities					
Revenue Bonds Payable	170,596	110,999	-	-	281,595
Total Non-current Liabilities	<u>170,596</u>	<u>110,999</u>	<u>-</u>	<u>-</u>	<u>281,595</u>
TOTAL LIABILITIES	<u>600,064</u>	<u>129,499</u>	<u>-</u>	<u>6,960</u>	<u>736,523</u>
NET POSITION					
Restricted for Debt Service	-	-	-	27,203	27,203
Unrestricted	(499,183)	(110,709)	17,017	93,636	(499,239)
TOTAL NET POSITION	<u>\$ (499,183)</u>	<u>\$ (110,709)</u>	<u>\$ 17,017</u>	<u>\$ 120,839</u>	<u>\$ (472,036)</u>

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities Enterprise Funds				
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	Non-major Enterprise Fund	Total Enterprise Funds
Operating Revenues:					
Charges for Services	\$ 157,618	\$ 73,539	\$ 49,111	\$ 3,483	\$ 283,751
Operating Expenses:					
Salary & Wages	19,995	15,150	-	-	35,145
Contracted Services	72,199	-	46,157	-	118,356
Maintenance & Supplies	35,851	-	-	-	35,851
Operating Costs	-	31,390	-	-	31,390
Total Operating Expenses	128,045	46,540	46,157	-	220,742
Operating Income (Loss)	29,573	26,999	2,954	3,483	63,009
Non-Operating Revenues (Expenses):					
Interest	510	-	-	-	510
Interest on Debt Service	(6,713)	(3,700)	-	-	(10,413)
Total Non-operating Revenues (Expense)	(6,203)	(3,700)	-	-	(9,903)
Income (Loss) Before Operating	23,370	23,299	2,954	3,483	53,106
Net Income (Loss)	23,370	23,299	2,954	3,483	53,106
Net Position, January 1	(522,553)	(134,008)	14,063	117,356	(525,142)
Net Position, December 31	\$ (499,183)	\$ (110,709)	\$ 17,017	\$ 120,839	\$ (472,036)

See Notes to the Financial Statements

CITY OF PORTLAND, NORTH DAKOTA
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Business-type Activities				Total Enterprise Funds
	Enterprise Funds				
	Water Operating Fund	Sewer Operating Fund	Garbage Operating Fund	Non-major Enterprise Fund	
CASH FLOWS FROM (TO) OPERATING ACTIVITIES					
Receipts from Customers	\$ 157,618	\$ 73,539	\$ 49,111	\$ 4,083	\$ 284,351
Payments to Contractors and Suppliers	(108,050)	-	(46,157)	-	(154,207)
Payroll Expenses	(19,995)	(15,150)	-	-	(35,145)
Miscellaneous Operating Expenses	-	(31,390)	-	-	(31,390)
Net Cash Provided (Used) by Operating Activities	<u>29,573</u>	<u>26,999</u>	<u>2,954</u>	<u>4,083</u>	<u>63,609</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES					
Inter Fund Loans	25,053	(4,799)	(2,954)	20,548	37,848
Net Cash Provided (Used) by Noncapital Financing Activities	<u>25,053</u>	<u>(4,799)</u>	<u>(2,954)</u>	<u>20,548</u>	<u>37,848</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Paid on Debt	(29,700)	(18,500)	-	-	(48,200)
Interest Paid on Debt	(6,713)	(3,700)	-	-	(10,413)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(36,413)</u>	<u>(22,200)</u>	<u>-</u>	<u>-</u>	<u>(58,613)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES					
Interest Income	510	-	-	-	510
Investment Purchased	(452)	-	-	-	(452)
Net Cash Provided (Used) by Investing Activities	<u>58</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,271	-	-	24,631	42,902
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>27,661</u>	<u>-</u>	<u>-</u>	<u>2,572</u>	<u>30,233</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 45,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,203</u>	<u>\$ 73,135</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 29,573	\$ 26,999	\$ 2,954	\$ 3,483	\$ 63,009
Changes in assets and liabilities					
Increase/(Decrease) in Customer Deposits	-	-	-	600	600
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,573</u>	<u>\$ 26,999</u>	<u>\$ 2,954</u>	<u>\$ 4,083</u>	<u>\$ 63,609</u>

See Notes to the Financial Statements

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

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Portland operates under a City Council form of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The accompanying financial statements present the activities of the City of Portland, (the primary government), its component units, and other organizations that are included to ensure that the financial statements are not misleading. Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of an organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources. Component units may also include organizations that are fiscally dependent on the City. Fiscal dependence can include the City's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on these criteria, there are no component units to be included within the City as a reporting entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portland, North Dakota was incorporated under the laws of the State of North Dakota and operates under a city council form of government. The accounting policy of the City is to maintain the accounting records on a modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City does not maintain capital asset records for the governmental and business-type activities. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Basis of Presentation

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

Government-wide Financial Statements

The government-wide financial statements consist of a statement of net position and a statement of activities. These statements display information about the City as a whole.

The statement of net position presents the financial condition of the governmental activities of the City at year-end.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the City. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

The government-wide financial statements do not include fiduciary funds or component units that are fiduciary in nature.

Fund Financial Statements

In order to aid financial management and to demonstrate legal compliance, the City segregates transactions related to certain functions or activities in separate funds. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of the governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5 percent of the corresponding total for the total of all governmental and enterprise funds.

Each major fund is presented as a separate column in the fund financial statements. Non-major funds are aggregated and presented in a single column.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. There are three categories of funds: governmental, proprietary, and fiduciary. The funds of the City are described below:

Governmental Funds

The City reports the following major governmental funds:

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It accounts for all financial resources of the general government except those legally or administratively required to be accounted for in other funds.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Sales Tax - City Fund

This fund is used to account for collections of City sales taxes. Expenditures are made primarily for a Mayville State University wellness center. The remaining expenditures are for various other City purposes.

Highway Distribution Fund

This fund is used to account for taxes received for City streets and roads and for repair and maintenance projects.

Street / Storm Sewer 1998-1,2 Fund

This fund is used to account for principal and interest payments on special assessment bonds.

TIF Fund

This fund is used to account for principal and interest payments on the 2007 TIF District special assessment bonds.

2014 Street Improvement Fund-Debt Service

This fund is used to account for the collection of special assessments levied for the 2014 street improvement project and the payment of principle and interest on the bonds issued for this project.

Proprietary Funds

The reporting focus of proprietary funds is on the determination of net income, financial position, and changes in financial position (economic resources). These funds are used to account for activities which are similar to those found in the private sector. The funds are maintained on the modified cash basis of accounting. The City has the following major proprietary funds:

Water Operating Fund

This fund is used to account for customer receipts for water fees and operating expenses for water services. It is also used to account for principal and interest payment on water revenue bonds.

Sewer Operating Fund

This fund is used to account for customer receipts for sewer fees and operating expenses for sewer services. It is also used to account for principal and interest payments on sewer revenue bonds.

Garbage Operating Fund

This fund is used to account for customer receipts for garbage fees and operating expenses for garbage services.

Measurement Focus and Basis of Accounting

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

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

Governmental fund financial statements are reported using the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, and is used as appropriate:

- a. 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 present 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.
- b. The proprietary funds utilize an “economic resources” measure focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities using the modified cash basis of accounting (whether current or noncurrent, financial or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

If both restricted and unrestricted resources are available to use for the same purpose, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

In the government-wide and fund financial statements, activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures/expenses when they result from cash transactions. 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 billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable or 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, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Cash, Cash Equivalents and Investments

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by North Dakota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Cash and cash equivalents on the statement of cash flows consists of highly liquid investments with an original maturity of three months or less.

Investments consist of certificates of deposit, with an original maturity date in excess of 90 days, stated at cost.

Inter-Fund Receivables and Payables (Due to / Due from other Funds)

Inter-fund receivables and payables arise primarily as a result of a cash deficit in one or more funds. The inter-fund balances will be repaid within one year with future revenues or transfers.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

Net Position

In the government-wide financial statements, equity is classified as “net position” and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balances

The difference between assets and liabilities is “Net Position” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority which is the Council through a resolution.

Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Council.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

At December 31, 2018, the City only had restricted, assigned, and unassigned fund balances. Restricted fund balances were constrained by state laws related to specific tax levies and highway tax distributions, as well as provisions of debt covenants.

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

Revenues

The City has the following program revenues; fees, fines and charges for services, operating and capital grants or contributions that are specific to a program. All other governmental revenues and general tax levies are classified as general revenues.

Operating revenues and expenses in the enterprise funds consist of user fees, sales, charges for services and the related income and expenses associated with providing those sales and services. Non-operating revenues and expenses consist of contributions, grants, rents, interest and other miscellaneous items not associated with the services the fund is providing.

Property Taxes

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

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Property taxes attach as an enforceable lien on January 1st of the year collectible. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if taxes are not paid.

Estimates

The preparation of financial statements in conformity with other comprehensive basis of accounting used by the City, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City maintains a cash pool of which each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents. In addition, non-pooled investments are separately held and reflected in their respective funds balance sheet as investments. The City's investments consist of certificates of deposit accounts.

In accordance with North Dakota laws, the City maintains deposits at depositories authorized by the city council. The depositories are members of the Federal Reserve System.

State statutes require that market value of collateral pledged to secure deposits not covered by insurance must equal 110% of the deposits. The City's cash and investments are held by the designated depository. At December 31, 2018, the City had adequate FDIC insurance and pledged collateral to cover all deposits.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State statutes authorize local governments to invest in:

- a) 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.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.
- e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

NOTE 4 - LONG-TERM DEBT LIABILITIES

The following is a summary of changes in governmental activities long-term debt by individual issue for the years ended December 31, 2018:

December 31, 2018 Governmental Activities	Interest Rate	Beginning Balance	New Issues	Retired	Ending Balance	Due within One Year
Bonds Payable						
\$175,000 2007 TIF Bonds	4.50%	\$ 85,482	\$ -	\$ 11,937	\$ 73,545	\$ 12,141
\$2,440,000 2014 Refunding Improvement	.5% - 3.25%	1,920,000	-	180,000	1,740,000	180,000
Notes Payable						
First & Farmers Bank	2.00%	27,951	-	13,807	14,144	14,144
Total Governmental Activities		\$ 2,033,433	\$ -	\$ 205,744	\$ 1,827,689	\$ 206,285

The amount of future payments on the above governmental activities long-term debt is as follows:

2014 Refunding Improvement Bonds Payable		
	Principal	Interest
2019	\$ 180,000	\$ 40,970
2020	180,000	37,955
2021	175,000	34,582
2022	175,000	17,908
2023	175,000	26,883
2024-2027	685,000	61,778
2028	170,000	2,763
	<u>\$ 1,740,000</u>	<u>\$ 222,839</u>

TIF Bonds Payable		
	Principal	Interest
2019	\$ 12,141	\$ 3,468
2020	12,415	2,922
2021	12,694	2,363
2022	12,980	1,792
2023	13,272	1,208
Thereafter	10,043	611
	<u>\$ 73,545</u>	<u>\$ 12,364</u>

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

		Notes Payable		
		Principal	Interest	
	2019	\$ 14,144	\$	283
		\$ 14,144	\$	283
		Total		
		Principal	Interest	Total
	2019	\$ 206,285	\$ 44,721	\$ 251,006
	2020	192,415	40,877	233,292
	2021	187,694	36,945	224,639
	2022	187,980	19,700	207,680
	2023	188,272	28,091	216,363
	2024-2027	695,043	62,389	757,432
	2028	170,000	2,763	172,763
		\$ 1,827,689	\$ 235,486	\$ 2,063,175

The following is a summary of changes in business-type activities long-term debt by individual issue for the years ended December 31, 2018:

December 31, 2018 Business-Type Activities	Interest Rate	Beginning Balance	New Issues	Retired	Ending Balance	Due within One Year
Water Revenue Bonds	3.0% - 5.125%	\$ 140,956	\$ -	\$ 7,988	\$ 132,968	\$ 8,500
First & Farmers Bank	2.38%	90,131	-	21,712	68,419	22,292
Waste Water Improvements	2.50%	148,000	-	18,500	129,500	18,500
		\$ 379,087	\$ -	\$ 48,200	\$ 330,887	\$ 49,292

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

The amount of future payments and the combined future payments on the above business-type activities long-term debt is as follows:

	Water Revenue Bonds Payable	
	Principal	Interest
2019	\$ 8,500	\$ 4,045
2020	8,700	3,797
2021	9,000	3,521
2022	9,200	3,247
2023	9,500	2,968
2024-2027	41,000	8,896
2028-2032	47,068	3,708
	\$ 132,968	\$ 30,182

	Waste Water Bonds Payable	
	Principal	Interest
2019	\$ 18,500	\$ 3,238
2020	18,500	2,775
2021	19,500	2,312
2022	20,000	1,825
2023	20,000	1,540
2024-2027	33,000	1,630
	\$ 129,500	\$ 13,320

	First and Farmers	
	Principal	Interest
2019	\$ 22,292	\$ 1,627
2020	22,823	1,096
2021	23,304	553
	\$ 68,419	\$ 3,276

	Total		
	Principal	Interest	Total
2018	\$ 49,292	\$ 8,910	\$ 58,202
2019	50,023	7,668	57,691
2020	51,804	6,386	58,190
2021	29,200	5,072	34,272
2022	29,500	4,508	34,008
2023-2027	74,000	10,526	84,526
2028-2032	47,068	3,708	50,776
	\$ 330,887	\$ 46,778	\$ 377,665

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

Outstanding debt at December 31, 2018 consists of the following issues:

Governmental Activities

2018

Bonds Payable

\$2,440,000 Refunding Improvement Bonds of 2014; due in annual installments of \$170,000 to \$180,000 through May 1, 2028; interest at .5% to 3.25%. Paid by the 2014 Street Improvement debt service fund.	\$ 1,740,000
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TIF Bonds Payable

\$175,000 Special Assessment Bonds of 2007; due in annual installments of \$9,938 to \$13,570 through November 1, 2024; interest at 4.5%. Paid by the TIF Fund.	<u>73,545</u>
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Total Bonds Payable:

\$ 1,813,545

Notes Payable:

\$68,708 Note Payable for a Bobcat; due in annual installments of \$14,398 with balance due April 5, 2019; interest at 2%. Paid by the General Fund.	<u>14,144</u>
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Total Notes Payable:

\$ 14,144

Business-Type Activities

2018

Revenue Bonds:

\$291,164 Water Improvement Revenue Bonds of 2004-1 due in annual installments of \$10,000 to \$15,000 through September 1, 2024; interest at 2.5%	\$ 90,000
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\$30,236 Wastewater Treatment Revenue Bonds of 2006 due in annual installments of \$1,000 to \$2,000 through September 1, 2026; interest at 2.5%	14,500
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\$46,937 Wastewater Treatment Revenue Bonds of 2007 due in annual installments of \$1,937 to \$3,000 through September 1, 2027; interest at 2.5%	25,000
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\$300,000 Revenue Bonds of 1993-1 due in annual installments of \$4,500 to \$12,000 through November 9, 2032; interest at 3%.	<u>132,968</u>
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Total Revenue Bonds:

\$ 262,468

Notes Payable:

\$111,400 Note Payable for First and Farmers due in annual installments of \$23,919 through December 1, 2021; interest at 2.38%	<u>68,419</u>
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Total Notes Payable:

\$ 68,419

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 5 - FUND DEFICITS

For the years ended December 31, 2018, various funds of the City were in a deficit fund balance or net position as listed in the following schedule. The City will eliminate the deficit with future revenues and transfers from other funds.

	<u>2018</u>
General	\$ 311,879
Highway	28,467
TIF	146,753
Water	499,183
Sewer	110,709
	<u><u>\$ 1,096,991</u></u>

NOTE 6 - RISK MANAGEMENT

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

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, auto and public assets insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$354,978 for public assets coverage.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage for the City employees.

The City has workers compensation with the North Dakota Workforce Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2018, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 8 - INTERFUND BALANCES

Following is a schedule of interfund balances:

Due From Other Funds	<u>2018</u>
General Fund	\$ 13,115
Sales Tax-City Fund	164,426
Street/Storm Sewer 1998-1, 2 Fund	178,822
2014 Street Improvement	287,229
City Share - Special Assessments	56,559
Emergency	20,681
Sales Tax-EDC Fund	76,361
Special Assessment Deficiency	17,601
Penalty and Interest	22,951
Sewer Operating	18,790
Garbage Operating	17,017
Water Reserve Fund	50,543
Sewer Reserve Fund	10,515
Mosquito	16,636
Water Meter Deposits	14,977
Garbage Surcharge	7,925
	<u>\$ 974,148</u>

Due to Other Funds	<u>2018</u>
General Fund	\$ 400,252
Highway Fund	28,467
TIF Fund	146,753
Water Operating Fund	398,676
	<u>\$ 974,148</u>

Inter-fund receivables and payables arise primarily as a result of a cash deficit in one or more funds.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

NOTE 9 - NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

GASB Statement No. 90, Majority Equity Interests, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 91, Conduit Debt Obligations, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

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

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018

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

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

Management has not yet determined the effects these statements will have on its financial statements.

NOTE 10 - SUBSEQUENT EVENTS

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

No other significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through August 31, 2020, which is the date these financial statements were available to be issued.

CITY OF PORTLAND, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 79,765	\$ 79,765	\$ 79,309	\$ (456)
Licenses and Permits	1,550	1,550	6,975	5,425
Intergovernmental	42,000	42,000	45,917	3,917
Fine and Forfeits	300	300	-	(300)
Interest	70	70	61	(9)
Miscellaneous Revenue	43,656	43,656	-	(43,656)
Other Revenue	-	-	3,790	3,790
Total Revenues	<u>167,341</u>	<u>167,341</u>	<u>136,052</u>	<u>(31,289)</u>
EXPENDITURES				
Current:				
General Government	172,400	172,400	91,442	80,958
Public Safety	78,200	78,200	72,056	6,144
Public Works	-	-	19,191	(19,191)
Capital Outlay	-	-	95	(95)
Debt Service:				
Principal Retirement	-	-	13,807	(13,807)
Interest and Service Charges	-	-	561	(561)
Total Expenditures	<u>250,600</u>	<u>250,600</u>	<u>197,152</u>	<u>53,448</u>
Revenues Over (Under) Expenditures	<u>(83,259)</u>	<u>(83,259)</u>	<u>(61,100)</u>	<u>22,159</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers (Out)	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(83,259)	(83,259)	(61,100)	22,159
Fund Balance - January 1	<u>(250,779)</u>	<u>(250,779)</u>	<u>(250,779)</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ (334,038)</u></u>	<u><u>\$ (334,038)</u></u>	<u><u>\$ (311,879)</u></u>	<u><u>\$ 22,159</u></u>

CITY OF PORTLAND, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
CITY SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 45,000	\$ 45,000	\$ 34,559	\$ (10,441)
Total Revenues	<u>45,000</u>	<u>45,000</u>	<u>34,559</u>	<u>(10,441)</u>
EXPENDITURES				
Current:				
General Government	45,000	45,000	20,477	24,523
Total Expenditures	<u>45,000</u>	<u>45,000</u>	<u>20,477</u>	<u>24,523</u>
Net Change in Fund Balance	-	-	14,082	14,082
Fund Balance - January 1	<u>150,344</u>	<u>150,344</u>	<u>150,344</u>	<u>-</u>
Fund Balance - December 31	<u><u>\$ 150,344</u></u>	<u><u>\$ 150,344</u></u>	<u><u>\$ 164,426</u></u>	<u><u>\$ 14,082</u></u>

CITY OF PORTLAND, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
HIGHWAY DISTRIBUTION FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Budget Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes	\$ 65,000	\$ 65,000	\$ 36,344	\$ (28,656)
Total Revenues	<u>65,000</u>	<u>65,000</u>	<u>36,344</u>	<u>(28,656)</u>
EXPENDITURES				
Current:				
Public Works	65,000	65,000	61,425	3,575
Total Expenditures	<u>65,000</u>	<u>65,000</u>	<u>61,425</u>	<u>3,575</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(25,081)</u>	<u>(25,081)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	(25,081)	(25,081)
Fund Balance - January 1	<u>(3,386)</u>	<u>(3,386)</u>	<u>(3,386)</u>	<u>-</u>
Fund Balance - December 31	<u>\$ (3,386)</u>	<u>\$ (3,386)</u>	<u>\$ (28,467)</u>	<u>\$ (25,081)</u>

CITY OF PORTLAND, NORTH DAKOTA
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
DECEMBER 31, 2018 AND 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Information

The City Commission adopts a budget on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis is substantially the same as the basis used for financial reporting. The budget is prepared for the general fund and each special revenue fund. The City is required to present the adopted and final amended budgeted receipts and disbursements for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- 1) The City Commission makes a preliminary budget annually on or before September 10th. The budget includes proposed expenditures and a means of financing them.
- 2) The governing board holds a public meeting hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget.
- 3) After the budget hearing, the board adopts the final budget. The final budget must be filed with the county auditor by October 10th.
- 4) No disbursements shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any receipts and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- 5) All annual appropriations lapse at year-end.

NOTE 2 – EXPENDITURES IN EXCESS OF BUDGET

Expenditures exceeded budget as follows:

December 31, 2018	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Public Works	\$ -	\$ 19,191	\$ 19,191
Debt Service-Principal	-	13,807	13,807
Debt Service-Interest	-	561	561

Funds sufficient to provide for the excess expenditures were made available from other funds or loan proceeds for the excess; the excess has no impact on the financial results of the City.

CITY OF PORTLAND, NORTH DAKOTA
COMBINING BALANCE SHEET – MODIFIED CASH BASIS
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	<u>City Share - Special Assessments</u>	<u>Emergency</u>	<u>Sales Tax EDC Fund</u>	<u>Special Assessment Deficiency</u>	<u>Penalty & Interest</u>	<u>Total Governmental</u>
ASSETS						
Due From Other Funds	\$ 56,559	\$ 20,681	\$ 76,361	\$ 17,601	\$ 22,951	\$ 194,153
Total Assets	<u>\$ 56,559</u>	<u>\$ 20,681</u>	<u>\$ 76,361</u>	<u>\$ 17,601</u>	<u>\$ 22,951</u>	<u>\$ 194,153</u>
LIABILITIES						
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCE						
Restricted:						
Special Revenue	56,559	20,681	-	17,601	22,951	117,792
Assigned	-	-	76,361	-	-	76,361
Total Fund Balance (Deficit)	<u>56,559</u>	<u>20,681</u>	<u>76,361</u>	<u>17,601</u>	<u>22,951</u>	<u>194,153</u>
Total Liabilities and Fund Balance	<u>\$ 56,559</u>	<u>\$ 20,681</u>	<u>\$ 76,361</u>	<u>\$ 17,601</u>	<u>\$ 22,951</u>	<u>\$ 194,153</u>

CITY OF PORTLAND, NORTH DAKOTA
COMBINING BALANCE SHEET – MODIFIED CASH BASIS
NON-MAJOR ENTERPRISE FUNDS
DECEMBER 31, 2018

	<u>Water Reserve</u>	<u>Sewer Reserve</u>	<u>Mosquito</u>	<u>Water Meter Deposits</u>	<u>Garbage Surcharge</u>	<u>Total</u>
ASSETS						
Current Assets						
Restricted Cash	\$ -	\$ 27,203	\$ -	\$ -	\$ -	\$ 27,203
Due From Other Funds	50,543	10,515	16,636	14,977	7,925	100,596
Total Current Assets	<u>50,543</u>	<u>37,718</u>	<u>16,636</u>	<u>14,977</u>	<u>7,925</u>	<u>127,799</u>
 TOTAL ASSETS	 <u>\$ 50,543</u>	 <u>\$ 37,718</u>	 <u>\$ 16,636</u>	 <u>\$ 14,977</u>	 <u>\$ 7,925</u>	 <u>\$ 127,799</u>
 LIABILITIES						
Current Liabilities						
Other Payables	\$ -	\$ -	\$ -	\$ 6,960	\$ -	\$ 6,960
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,960</u>	<u>-</u>	<u>6,960</u>
 NET POSITION						
Restricted for Debt Service	-	27,203	-	-	-	27,203
Unrestricted	50,543	10,515	16,636	8,017	7,925	93,636
TOTAL NET POSITION	<u>\$ 50,543</u>	<u>\$ 37,718</u>	<u>\$ 16,636</u>	<u>\$ 8,017</u>	<u>\$ 7,925</u>	<u>\$ 120,839</u>

CITY OF PORTLAND, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – MODIFIED CASH BASIS
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>City Share - Special Assessments</u>	<u>Emergency</u>	<u>Sales Tax EDC Fund</u>	<u>Special Assessment Deficiency</u>	<u>Penalty & Interest</u>	<u>Total Governmental</u>
REVENUES						
Taxes	\$ 7,699	\$ 2,365	\$ 7,233	\$ -	\$ -	\$ 17,297
Special Assessments	-	-	-	2,057	2,947	5,004
Total Revenues	<u>7,699</u>	<u>2,365</u>	<u>7,233</u>	<u>2,057</u>	<u>2,947</u>	<u>22,301</u>
EXPENDITURES						
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues Over (Under) Expenditures	<u>7,699</u>	<u>2,365</u>	<u>7,233</u>	<u>2,057</u>	<u>2,947</u>	<u>22,301</u>
Net Change in Fund Balance	7,699	2,365	7,233	2,057	2,947	22,301
Fund Balance - January 1	<u>48,860</u>	<u>18,316</u>	<u>69,128</u>	<u>15,544</u>	<u>20,004</u>	<u>171,852</u>
Fund Balance - December 31	<u>\$ 56,559</u>	<u>\$ 20,681</u>	<u>\$ 76,361</u>	<u>\$ 17,601</u>	<u>\$ 22,951</u>	<u>\$ 194,153</u>

CITY OF PORTLAND, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – MODIFIED CASH BASIS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Water Reserve</u>	<u>Sewer Reserve</u>	<u>Mosquito Fund</u>	<u>Water Meter Deposits Fund</u>	<u>Garbage Surcharge Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues:						
Charges for Services	\$ -	\$ -	\$ 2,894	\$ -	\$ 589	\$ 3,483
Operating Expenses:						
Operating Costs	-	-	-	-	-	-
Total Operating Expenses	-	-	-	-	-	-
Operating Income (Loss)	-	-	2,894	-	589	3,483
Net Income (Loss)	-	-	2,894	-	589	3,483
Net Position, January 1	<u>50,543</u>	<u>37,718</u>	<u>13,742</u>	<u>8,017</u>	<u>7,336</u>	<u>117,356</u>
Net Position, December 31	<u>\$ 50,543</u>	<u>\$ 37,718</u>	<u>\$ 16,636</u>	<u>\$ 8,017</u>	<u>\$ 7,925</u>	<u>\$ 120,839</u>

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

Mayor and Council Members of
the City Council
City of Portland, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Portland, North Dakota as of and for the years ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 31, 2020, which contained an adverse opinion on governmental activities, business-type activities, water operating, and sewer operating. An adverse opinion was issued over governmental activities, business-type activities, water operating, and sewer operating for the year ended December 31, 2018 due to management not recording capital assets and the related depreciation expense for those assets, which should be included in order to conform with the modified cash basis of accounting.

Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our 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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-001, 2018-002, 2018-003 and 2018-004 to be material weaknesses.

Compliance and Other Matters

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

City of Portland's Responses to Findings

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

Purpose of this Report

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



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

August 31, 2020

CITY OF PORTLAND, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Material Weakness 2018-001 – Capital Asset Records

Condition:

Capital asset records sufficient for financial reporting under the modified cash basis of accounting do not exist.

Criteria:

The modified cash basis of accounting requires the financial statements to include capital assets, net of accumulated depreciation. These accounting principles require that capital asset records include infrastructure constructed after January 1, 2004.

Effect:

The omission of capital assets from the financial statements results in an incomplete presentation of the City's financial statements and the auditor's report includes an adverse opinion for the governmental activities, business type activities and water operating and sewer operating proprietary funds.

Recommendation:

We recommend that the City adopt a capital asset policy, which serves as a guideline for financial reporting of long-lived assets. We further recommend that the City prepare a schedule of capital assets and accumulated depreciation, in accordance with the City's policies.

Response:

The City will consider adopting a capital asset policy and establishing capital asset records.

Material Weakness 2018-002 – Segregation of Duties

Condition:

A proper segregation of duties for internal control does not exist.

Criteria:

In an effort to ensure adequate internal control over financial reporting and prevent material misstatement due to errors or fraud, there should be a segregation of the functions of transaction approval, asset custody, transaction posting, and financial report and records reconciliation.

Effect:

The City of Portland has one office employee, the City Auditor, responsible for all accounting functions involved. The auditor handles all incoming monies, prepares the receipts, prepares and makes the bank deposits, and does the bank reconciliations. The City Auditor also prepares and records the disbursements to the journals. The City Auditor does report financial information to the City Council, but the risk of misstatement of the City's financial condition remains present.

Recommendation:

Proper separation of duties should be obtained where feasible.

CITY OF PORTLAND, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Response:

The City recognizes the lack of segregation of duties and will implement safeguards wherever possible.

Material Weakness 2018-003 – Signature Stamp

Condition:

A signature stamp with the Mayor's signature is kept in the possession of the City Auditor.

Criteria:

Dual signatures are required on all expenditures. If one employee is capable of signing both signatures on a check, the effectiveness of the control is eliminated.

Effect:

There is an increased risk that one employee could generate erroneous or fraudulent checks without the knowledge of management or the City Council.

Recommendation:

We recommend that the signature stamp be stored in a secured location and used only by the Mayor after reviewing the appropriate support documentation.

Response:

The City Auditor only uses the signature stamp after receiving approval from the Mayor and the Mayor is not present to sign checks.

Material Weakness 2018-004 – Financial Statement Preparation

Condition:

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

Criteria:

An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting.

Effect:

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

Recommendation:

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

CITY OF PORTLAND, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Response:

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