

# **AUDIT REPORT**

CITY OF STANLEY  
Stanley, North Dakota

For the Year Ended December 31, 2018

**RATH & MEHRER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF STANLEY  
Stanley, North Dakota

TABLE OF CONTENTS  
For the Year Ended December 31, 2018

	<u>Page(s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-11
 <b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position - Modified Cash Basis	12
Statement of Activities - Modified Cash Basis	13
Balance Sheet - Modified Cash Basis - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	17
Statement of Net Position - Modified Cash Basis - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	19-20
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	21
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis - Agency Funds	22
Notes to the Financial Statements	23-41
 <b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule - Modified Cash Basis	
General Fund	42
Stanley Fund	43
Building Reserve Fund	44
Notes to the Budgetary Comparison Schedules	45
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	46
Schedule of Fund Activity Arising from Cash Transactions	47-48
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	49-50
Schedule of Findings and Responses	51-52

CITY OF STANLEY  
Stanley, North Dakota

CITY OFFICIALS

Gary Weisnhberger	Mayor
Tim Holte	President
David Minton	Vice President
Zachary Gaaskjolen	Council Member
Jacob Hellman	Council Member
Ty Taylor	Council Member
Linda Wienbar	Council Member
Allyn Sveen	City Auditor



# Rath & Mehrer

Certified Public Accountants

*Specializing in Governmental Auditing*

Phone: (701) 258-4560

Jayson Rath, CPA  
Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Stanley  
Stanley, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Stanley, Stanley, 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 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**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 city'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 audit opinions.

### **Opinions**

In our 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Stanley, Stanley, North Dakota, as of December 31, 2018, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.



## **Basis of Accounting**

We 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. Our opinions are not modified with respect to this matter.

## **Other Matters**

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2019 on our consideration of the city'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

February 1, 2019

CITY OF STANLEY

Management's Discussion and Analysis

December 31, 2018

The Management's Discussion and Analysis (MD&A) of the City of Stanley's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2018. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "*Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended December 31, 2018 are as follows:

- \* Total net position of the city increased \$3,258,551 as a result of the current year's operations. Net position of the governmental activities increased \$3,477,108 and net position of the business-type activities decreased (\$218,558).
- \* Governmental net position totaled \$34,657,325 and business-type net position totaled \$6,805,127.
- \* Total revenues from all sources were \$7,431,109 for governmental activities and \$1,222,820 for business-type activities.
- \* Total expenses were \$3,963,217 for governmental activities and \$1,432,162 for business-type activities.
- \* The city's general fund had \$4,987,427 in total revenues and \$1,747,719 in total expenditures. There was a total of \$152,855 paid from other financing uses. Overall, the general fund balance increased by \$3,086,853 for the year ended December 31, 2018.

**USING THIS ANNUAL REPORT**

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.



The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- \* Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- \* Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

#### **REPORTING ON THE CITY AS A WHOLE**

##### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2018?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, urban and economic development, culture and recreation and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.



## REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

### Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, Stanley fund, building reserve fund, John Rian street improvement fund, street reconstruction and utility fund and West View 2nd addition improvements fund are considered "major governmental funds". The city's water fund, well water fund, sewer lagoon construction fund, sewer fund and garbage fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" or "Other Enterprise Funds".

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2018. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position increased by \$3,258,551 for the year ended December 31, 2018. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2018, the city's net position of \$41,462,452 is segregated into three separate categories. Net investment in capital assets totals \$23,206,325. It should be noted that these assets are not available for future spending. The restricted component of net position is \$6,060,854 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$12,195,273, which includes (\$672,475) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$12,867,748 is available to meet the city's ongoing obligations.

Table I  
 Net Position  
 As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	17,157,366	1,802,487
Capital Assets (net of accumulated depreciation)	23,795,588	5,002,640
Total Assets	40,952,954	6,805,127
Deferred Outflows of Resources	581,572	0
<u>Liabilities</u>		
Current Liabilities	661,683	
Long-Term Liabilities	4,961,471	
Net Pension Liability	1,087,406	
Total Liabilities	6,710,560	0
Deferred Inflows of Resources	166,641	0
<u>Net Position</u>		
Net Investment in Capital		
Assets	18,203,685	5,002,640
Restricted	6,060,854	
Unrestricted	10,392,786	1,802,487
Total Net Position	34,657,325	6,805,127

Net Position  
 As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	14,698,063	1,862,713
Capital Assets (net of accumulated depreciation)	23,348,445	5,160,972
Total Assets	38,046,508	7,023,685
Deferred Outflows of Resources	344,048	0
<u>Liabilities</u>		
Current Liabilities	660,703	
Long-Term Liabilities	5,620,302	
Net Pension Liability	871,885	
Total Liabilities	7,152,890	0
Deferred Inflows of Resources	57,450	0
<u>Net Position</u>		
Net Investment in Capital		
Assets	17,095,840	5,160,972
Restricted	5,637,519	130,413
Unrestricted	8,446,858	1,732,300
Total Net Position	31,180,216	7,023,685

Table II shows the changes in net position for the fiscal year ended December 31, 2018. A comparative analysis of city-wide data is presented for both current and prior year.

Table II

Changes in Net Position  
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	74,346	1,214,103
Operating Grants and Contributions	1,450,308	
<u>General Revenues:</u>		
Property Taxes	666,145	
Other Taxes	4,943,076	
Intergovernmental - Unrestricted	140,458	
Interest Earnings and Other Revenue	156,776	8,718
<b>Total Revenues</b>	<u>7,431,109</u>	<u>1,222,820</u>
<b>Expenses</b>		
General Government	1,001,538	
Public Safety	528,664	
Streets and Public Works	1,349,939	
Urban and Econ. Development	810,935	
Culture and Recreation	101,290	
Other	365	
Interest on Long-Term Debt	170,487	
Water		1,001,308
Garbage		251,521
Sewer		179,333
<b>Total Expenses</b>	<u>3,963,217</u>	<u>1,432,162</u>
<b>Net Change in Position Before Transfers</b>	<u>3,467,892</u>	<u>(209,342)</u>
<b>Transfers</b>	<u>9,216</u>	<u>(9,216)</u>
<b>Net Change in Position</b>	<u>3,477,108</u> =====	<u>(218,558)</u> =====

Property taxes constituted 8%, other taxes 57%, unrestricted intergovernmental 2%, operating grants and contributions 17% and charges for services made up 15% of the total revenues of all activities of the city for the fiscal year ended December 31, 2018.

General government constituted 19%, public safety 10%, streets and public works 25% and enterprise 27% of total expenses for all activities during the fiscal year ended December 31, 2018.



Changes in Net Position  
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	84,528	1,175,232
Operating Grants and Contributions	728,119	230,262
<u>General Revenues:</u>		
Property Taxes	644,590	
Other Taxes	3,232,922	
Intergovernmental - Unrestricted	130,830	
Interest Earnings and Other Revenue	126,461	11,688
Gain on Trade-in of Capital Assets	8,200	
<b>Total Revenues</b>	<b>4,955,650</b>	<b>1,417,182</b>
<b>Expenses</b>		
General Government	1,050,552	
Public Safety	431,631	
Streets and Public Works	1,625,074	
Urban and Econ. Development	411,087	
Culture and Recreation	151,590	
Other	48,128	
Interest on Long-Term Debt	182,354	
Water		881,482
Garbage		268,090
Sewer		187,009
<b>Total Expenses</b>	<b>3,900,416</b>	<b>1,336,580</b>
<b>Net Change in Position Before Transfers</b>	<b>1,055,234</b>	<b>80,601</b>
<b>Transfers</b>	<b>2,009,144</b>	<b>(2,009,144)</b>
<b>Net Change in Position</b>	<b>3,064,378</b>	<b>(1,928,543)</b>

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III  
Total and Net Cost of Services  
As of December 31, 2018

	<u>Total Cost Year Ended Dec. 31, 2018</u>	<u>Net Cost Year Ended Dec. 31, 2018</u>
General Government	1,001,538	914,135
Public Safety	528,664	463,954
Streets and Public Works	1,349,939	634,166
Urban and Economic Dev.	810,935	810,935
Culture and Recreation	101,290	100,298
Other	365	365
Interest on Long-Term Debt	170,487	(485,289)
<b>Total Expenses</b>	<b>3,963,217</b>	<b>2,438,563</b>

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$7,431,109 and expenditures of \$4,981,023 for the year ended December 31, 2018. As of December 31, 2018, the unassigned fund balance of the city's general fund was \$10,463,307 and total unassigned fund balances for all of the city's governmental funds was \$8,945,176.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal year 2018, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2018 was \$1,881,423 more than budgeted. This variance was due to the city underestimating budgeted collections for oil and gas production taxes, included in intergovernmental revenues. Actual expenditures for the year ended December 31, 2018 were under budget by \$4,406,907. The city overestimated the budget for capital outlay by including \$4,000,000 for the construction of a new city hall building.

**CAPITAL ASSETS**

As of December 31, 2018, the city had \$28,798,228 invested in capital assets. The following table shows the balances, for governmental and business-type activities, as of December 31, 2018.

Table IV

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2018

	<u>Governmental</u>	<u>Business- Type</u>
Land	45,000	
Construction in Progress	1,046,710	
Buildings and Infrastructure	21,800,220	4,942,414
Machinery and Vehicles	903,658	60,226
Total (net of depreciation)	<u>23,795,588</u> =====	<u>5,002,640</u> =====

This total represents an increase of \$288,811 in capital assets from January 1, 2018. During the year, the city purchased a 2011 International truck, has an ongoing water, sewer and street improvement project to the West View 2nd addition and completed access roads to the new sports complex. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

Capital Assets  
 (Net of Accumulated Depreciation)  
 As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Land	45,000	
Buildings and Infrastructure	22,288,154	5,085,624
Machinery and Vehicles	1,015,291	75,348
	<hr/>	<hr/>
Total (net of depreciation)	23,348,445	5,160,972
	=====	=====

**DEBT ADMINISTRATION**

As of December 31, 2018, the city had \$5,623,154 in outstanding debt of which \$661,683 was due within one year. During fiscal year 2018, the city did not issue any new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 7 to the audited financial statements which follow this analysis.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Allyn Sveen, City Auditor, Stanley, ND.



CITY OF STANLEY  
Stanley, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Stanley Airport Authority
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	17,133,365.64	1,802,487.34	18,935,852.98	338,209.97
Economic Development Loan Receivable	24,000.00		24,000.00	
Capital Assets (net of accumulated depreciation):				
Land	45,000.00		45,000.00	572,675.00
Construction in Progress	1,046,710.00		1,046,710.00	
Buildings and Infrastructure	21,800,220.00	4,942,414.00	26,742,634.00	2,773,645.00
Vehicles and Machinery	903,658.00	60,226.00	963,884.00	5,100.00
Total Capital Assets	23,795,588.00	5,002,640.00	28,798,228.00	3,351,420.00
Total Assets	40,952,953.64	6,805,127.34	47,758,080.98	3,689,629.97
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions			581,572.00	
<b>LIABILITIES:</b>				
Long-Term Liabilities:				
Due Within One Year:				
Special Assessment Loans Payable	26,683.00		26,683.00	
Special Assessment Bonds Payable	635,000.00		635,000.00	
Due After One Year:				
Special Assessment Loans Payable	870,220.00		870,220.00	
Special Assessment Bonds Payable	4,060,000.00		4,060,000.00	
Compensated Absences Payable	31,250.75		31,250.75	
Net Pension Liability	1,087,406.00		1,087,406.00	
Total Liabilities	6,710,559.75		6,710,559.75	
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions			166,641.00	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	18,203,685.00	5,002,640.00	23,206,325.00	3,351,420.00
Restricted for:				
Debt Service	1,669,255.29		1,669,255.29	
Special Purposes	4,391,598.97		4,391,598.97	
Unrestricted	10,392,785.63	1,802,487.34	12,195,272.97	338,209.97
Total Net Position	34,657,324.89	6,805,127.34	41,462,452.23	3,689,629.97

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

CITY OF STANLEY  
Stanley, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2018

Net (Expense) Revenue and Change in Net Position

Functions/Programs	Program Revenues				Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Stanley Airport Authority	
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	1,001,537.64	41,632.88	45,770.25	(914,134.51)		(914,134.51)		
Public Safety	528,664.05	32,710.00	31,999.66	(463,954.39)		(463,954.39)		
Streets and Public Works	1,349,938.97	3.00	715,770.15	(634,165.82)		(634,165.82)		
Urban and Economic Development	810,934.51		992.14	(810,934.51)		(810,934.51)		
Culture and Recreation	101,290.02			(100,297.88)		(100,297.88)		
Other	364.52			(364.52)		(364.52)		
Interest on Long-Term Debt	170,487.08		655,775.81	485,288.73		485,288.73		
<b>Total Governmental Activities</b>	<b>3,963,216.79</b>	<b>74,345.88</b>	<b>1,450,308.01</b>	<b>(2,438,562.90)</b>		<b>(2,438,562.90)</b>		
<u>Business-Type Activities:</u>								
Water	1,001,308.09	768,449.35			(232,858.74)	(232,858.74)		
Garbage	251,521.32	268,093.48			16,572.16	16,572.16		
Sewer	179,332.93	177,559.70			(1,773.23)	(1,773.23)		
<b>Total Business-Type Activities</b>	<b>1,432,162.34</b>	<b>1,214,102.53</b>			<b>(218,059.81)</b>	<b>(218,059.81)</b>		
<b>Total Primary Government</b>	<b>5,395,379.13</b>	<b>1,288,448.41</b>	<b>1,450,308.01</b>	<b>(2,438,562.90)</b>	<b>(218,059.81)</b>	<b>(2,656,622.71)</b>		
===== Component Unit: Stanley Airport Authority								
	241,110.01	27,548.01	303,514.30				89,952.30	
=====								

General Revenues:

Taxes:

Property taxes; levied for general purposes  
 Property taxes; levied for special purposes  
 City sales taxes  
 City occupancy taxes  
 Cigarette taxes  
 Oil and gas production taxes  
 Homestead tax credit  
 Intergovernmental revenue not restricted  
 to specific programs  
 Earnings on investments and other revenue  
 Transfers

567,728.20  
 98,417.14  
 1,306,497.58  
 119,467.90  
 4,053.64  
 3,510,450.88  
 2,606.24  
 140,458.18  
 156,775.55  
 9,216.00

567,728.20  
 98,417.14  
 1,306,497.58  
 119,467.90  
 4,053.64  
 3,510,450.88  
 2,606.24  
 140,458.18  
 165,493.48

122,613.54

5,957.64

Total General Revenues

5,915,671.31 (498.07) 5,915,173.24 128,571.18

Change in Net Position

3,477,108.41 (218,557.88) 3,258,550.53 218,523.48

Net Position - January 1

31,180,216.48 7,023,685.22 38,203,901.70 3,471,106.49

Net Position - December 31

34,657,324.89 6,805,127.34 41,462,452.23 3,689,629.97

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



CITY OF STANLEY  
Stanley, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2018

Major Funds

	Stanley Fund	Building Reserve	John Rian Street Improvements	Street Reconstruction and Utility	West View 2nd Addition Improvements	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>							
Cash, Cash Equivalents and Investments	8,945,176.10	2,126,040.13				2,360,897.82	17,133,365.64
Interfund Receivable	1,518,131.25						1,518,131.25
Economic Development Loans Receivable	24,000.00						24,000.00
<b>Total Assets</b>	<b>10,463,307.35</b>	<b>2,126,040.13</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>2,360,897.82</b>	<b>18,675,496.89</b>
<hr/>							
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Interfund Payable			268,096.20	203,195.93	1,046,839.12		1,518,131.25
<b>Fund Balances:</b>							
Nonspendable:	24,000.00						24,000.00
Economic Development Loans						429,942.95	429,942.95
Restricted for:						36,659.74	36,659.74
Public Safety						4,334.21	4,334.21
Streets and Public Works						43,718.11	43,718.11
Emergency	150,000.00					37,867.22	3,042,876.88
Urban and Economic Development	3,042,876.88					510,742.29	510,742.29
Municipal Improvements	472,875.07					35,499.64	35,499.64
Culture and Recreation	35,499.64					1,669,255.29	1,669,255.29
Mountrail County Medical Center						39,439.22	39,439.22
Debt Service						43,499.62	43,499.62
Emergency Extension Water/Sewer						30,886.31	30,886.31
Asset Management							
Walking Trail							
Assigned to:		2,126,040.13	(268,096.20)	(203,195.93)	(1,046,839.12)	25,295.15	2,126,040.13
Building Improvements							
Equipment Replacement							
Unassigned							
<b>Total Fund Balances</b>	<b>10,463,307.35</b>	<b>2,126,040.13</b>	<b>(268,096.20)</b>	<b>(203,195.93)</b>	<b>(1,046,839.12)</b>	<b>2,360,897.82</b>	<b>17,157,365.64</b>
<b>Total Liabilities and Fund Balances</b>	<b>10,463,307.35</b>	<b>2,126,040.13</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>2,360,897.82</b>	<b>18,675,496.89</b>

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

CITY OF STANLEY  
Stanley, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2018

Total Fund Balances for Governmental Funds		17,157,365.64
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	29,176,540.00	
Less Accumulated Depreciation	(5,380,952.00)	
Net Capital Assets		23,795,588.00
<p>The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.</p>		
Total Deferred Outflows of Resources	581,572.00	
Total Deferred Inflows of Resources	(166,641.00)	
Net Deferred Outflows/Inflows of Resources		414,931.00
<p>Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2018 are:</p>		
Special Assessments Loans Payable	(896,903.00)	
Special Assessments Bonds Payable	(4,695,000.00)	
Compensated Absences Payable	(31,250.75)	
Net Pension Liability	(1,087,406.00)	
Total Long-Term Liabilities		(6,710,559.75)
Total Net Position of Governmental Activities		34,657,324.89 =====

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

CITY OF STANLEY  
Stanley, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2018

	Major Funds							Total Governmental Funds
	Stanley Fund	Building Reserve	John Rian Street Improvements	Street Reconstruction and Utility	West View 2nd Addition Improvements	Other Governmental Funds	Total Governmental Funds	
<b>Revenues:</b>								
Taxes	567,728.20	1,262,947.70					261,434.92	2,092,110.82
Special Assessments	41,632.88						655,775.81	655,775.81
Licenses, Permits and Fees	4,209,708.91						164,622.32	4,374,331.23
Intergovernmental	3.00						3.00	3.00
Charges for Services	32,710.00						11,112.67	32,710.00
Fines and Forfeits	135,644.25	10,303.63	77,484.91					234,545.46
Miscellaneous								
<b>Total Revenues</b>	<b>4,987,427.24</b>	<b>1,273,251.33</b>	<b>77,484.91</b>	<b>1,092,945.72</b>	<b>7,431,109.20</b>			
<b>Expenditures:</b>								
Current:								
General Government	894,358.52							894,358.52
Public Safety	458,468.05							458,468.05
Streets and Public Works	164,292.75	146,473.25		600.00	129.12		168,017.11	608,674.97
Urban and Economic Development							117,175.00	810,934.51
Culture and Recreation							99,723.02	99,723.02
Other							364.52	364.52
Capital Outlay	230,600.00				1,046,710.00			1,277,310.00
Debt Service:								
Principal							660,702.00	660,702.00
Interest and Service Charges							170,487.08	170,487.08
<b>Total Expenditures</b>	<b>1,747,719.32</b>	<b>822,922.25</b>	<b>146,473.25</b>	<b>600.00</b>	<b>1,046,839.12</b>	<b>1,216,468.73</b>		<b>4,981,022.67</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,239,707.92</b>	<b>450,329.08</b>	<b>(68,988.34)</b>	<b>(600.00)</b>	<b>(1,046,839.12)</b>	<b>(123,523.01)</b>		<b>2,450,086.53</b>



Other Financing Sources (Uses):								
Transfers In	104,333.28				266,404.51			
Transfers Out	(152,855.23)	(104,333.28)			(257,188.51)			
				162,071.23				
Total Other Financing Sources (Uses)	(152,855.23)			162,071.23	9,216.00			
Net Change in Fund Balances	3,086,852.69	450,329.08	(68,988.34)	(600.00)	(1,046,839.12)	38,548.22	2,459,302.53	
Fund Balance - January 1	7,376,454.66	3,274,922.51	2,195,028.47	(268,096.20)	(202,595.93)	-0-	2,322,349.60	14,698,063.11
Fund Balance - December 31	10,463,307.35	3,725,251.59	2,126,040.13	(268,096.20)	(203,195.93)	(1,046,839.12)	2,360,897.82	17,157,365.64

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

CITY OF STANLEY  
Stanley, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds 2,459,302.53

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

Governmental funds report capital outlays 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 outlay exceeded depreciation in the current year.

Current Year Capital Outlay	1,277,310.00	
Current Year Depreciation Expense	(830,167.00)	447,143.00

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	660,702.00	660,702.00

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Increase in Compensated Absences	(2,851.12)	
Net Increase to Pension Expense	(87,188.00)	(90,039.12)

Change in Net Position of Governmental Activities 3,477,108.41  
=====

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

CITY OF STANLEY  
Stanley, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2018

	Major Enterprise Funds						Total Enterprise Funds
	Water	Well Water	Sewer Lagoon Construction	Sewer	Garbage	Other Enterprise Funds	
<u>ASSETS</u>							
Current Assets:							
Cash and Cash Equivalents	323,547.31	393,804.00	85,709.31	882,586.79	38,853.93	77,986.00	1,802,487.34
Noncurrent Assets:							
Capital Assets (net of accumulated depr):							
Buildings and Infrastructure	2,849,873.00	141,480.00	1,685,495.00	255,066.00	10,500.00		4,942,414.00
Machinery and Vehicles	6,279.00			41,572.00	12,375.00		60,226.00
Total Noncurrent Assets	2,856,152.00	141,480.00	1,685,495.00	296,638.00	22,875.00		5,002,640.00
Total Assets	3,179,699.31	535,284.00	1,771,204.31	1,179,224.79	61,728.93	77,986.00	6,805,127.34
<u>NET POSITION</u>							
Net Investment in Capital Assets	2,856,152.00	141,480.00	1,685,495.00	296,638.00	22,875.00		5,002,640.00
Unrestricted	323,547.31	393,804.00	85,709.31	882,586.79	38,853.93	77,986.00	1,802,487.34
Total Net Position	3,179,699.31	535,284.00	1,771,204.31	1,179,224.79	61,728.93	77,986.00	6,805,127.34

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



CITY OF STANLEY  
Stanley, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds

For the Year Ended December 31, 2018

	Major Enterprise Funds					Other Enterprise Funds	Total Enterprise Funds
	Water	Well Water	Sewer Lagoon Construction	Sewer	Garbage		
<u>Operating Revenues:</u>							
Charges for Sales and Services:							
Water Billings	689,540.09						689,540.09
Outside Water Sales	29,189.48	38,317.70					67,507.18
Sewer Charges				122,556.07			122,556.07
Garbage Collections					263,029.67		263,029.67
Lagoon Charges				18,235.39			18,235.39
Lagoon Dumping Charges				36,500.00			36,500.00
Water Connect Fees	9,916.76						9,916.76
Finance Charges	1,485.32			268.24	673.31		2,426.87
Miscellaneous					4,390.50		4,390.50
<b>Total Operating Revenues</b>	<b>730,131.65</b>	<b>38,317.70</b>		<b>177,559.70</b>	<b>268,093.48</b>		<b>1,214,102.53</b>
<u>Operating Expenses:</u>							
Salaries	137,830.52			14,237.63	24,807.00		176,875.15
Workers Compensation	193.50				324.05		517.55
Health and Dental Insurance	19,161.76			2,002.02	3,376.33		24,540.11
Maintenance, Supplies and Repairs	36,937.22			21,189.37	3,321.11	1,756.61	63,204.31
Telephone	4,472.76	995.92					5,468.68
Utilities	8,905.33			9,557.08	4,647.75		23,110.16
Postage and Shipping	4,225.00						4,225.00
Dues and Conventions	2,982.43						2,982.43
Gas and Oil	9,454.75				8,003.73		17,458.48
Audit Fees	1,500.00			350.00	250.00		2,100.00
Chemicals/Water Testing	4,554.04						4,554.04
Insurance	3,973.78			171.14	797.75		4,942.67
Improvement and Replacement	10,897.42			12,751.59			23,649.01
Water Meters	11,995.47						11,995.47
Water Cost	465,222.81	48,545.73					513,768.54
R&T Water Supply						128,730.31	128,730.31
GIS Map Fees	3,275.00			3,275.00			6,550.00
Sewer Jetting				38,187.00			38,187.00
Sanitation Contract					200,401.00		200,401.00
Communication Fee	800.00	800.00		800.00	800.00		3,200.00
Miscellaneous	5,597.73	400.00		11,205.10	167.60		17,370.43
Depreciation	80,240.00	7,860.00	51,075.00	14,532.00	4,625.00		158,332.00
<b>Total Operating Expenses</b>	<b>812,219.52</b>	<b>58,601.65</b>	<b>51,075.00</b>	<b>128,257.93</b>	<b>251,521.32</b>	<b>130,486.92</b>	<b>1,432,162.34</b>
<b>Operating Income (Loss)</b>	<b>(82,087.87)</b>	<b>(20,283.95)</b>	<b>(51,075.00)</b>	<b>49,301.77</b>	<b>16,572.16</b>	<b>(130,486.92)</b>	<b>(218,059.81)</b>

(continued)

CITY OF STANLEY  
Stanley, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds

For the Year Ended December 31, 2018  
(continued)

	Major Enterprise Funds					Other Enterprise Funds	Total Enterprise Funds
	Water	Well Water	Sewer Lagoon Construction	Sewer	Garbage		
<u>Non-Operating Revenues:</u>							
Interest Income	935.29	1,135.46	245.20	2,444.86	88.53	297.27	5,146.61
Miscellaneous Revenues	3,411.88			159.44			3,571.32
<b>Total Non-Operating Revenues</b>	<b>4,347.17</b>	<b>1,135.46</b>	<b>245.20</b>	<b>2,604.30</b>	<b>88.53</b>	<b>297.27</b>	<b>8,717.93</b>
Income (Loss) Before Transfers	(77,740.70)	(19,148.49)	(50,829.80)	51,906.07	16,660.69	(130,189.65)	(209,341.88)
Transfers Out	(9,216.00)						(9,216.00)
<b>Change in Net Position</b>	<b>(86,956.70)</b>	<b>(19,148.49)</b>	<b>(50,829.80)</b>	<b>51,906.07</b>	<b>16,660.69</b>	<b>(130,189.65)</b>	<b>(218,557.88)</b>
Net Position - January 1	3,266,656.01	554,432.49	1,822,034.11	1,127,318.72	45,068.24	208,175.65	7,023,685.22
<b>Net Position - December 31</b>	<b>3,179,699.31</b>	<b>535,284.00</b>	<b>1,771,204.31</b>	<b>1,179,224.79</b>	<b>61,728.93</b>	<b>77,986.00</b>	<b>6,805,127.34</b>

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

CITY OF STANLEY  
Stanley, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2018

Major Enterprise Funds

	Water	Well Water	Sewer Lagoon Construction	Sewer	Garbage	Other Enterprise Funds	Total Enterprise Funds
730,131.65	38,317.70	177,559.70	268,093.48	1,214,102.53			
(574,793.74)	(50,741.65)	(97,486.28)	(218,388.94)	(1,071,897.53)			
(137,830.52)		(14,237.63)	(24,807.00)	(176,875.15)			
(19,355.26)		(2,002.02)	(3,700.38)	(25,057.66)			
(1,847.87)	(12,423.95)	63,833.77	21,197.16	(130,486.92)		(59,727.81)	
3,411.88		159.44					3,571.32
(9,216.00)							(9,216.00)
(5,804.12)		159.44					(5,644.68)
935.29	1,135.46	245.20	88.53	297.27			5,146.61
(6,716.70)	(11,288.49)	245.20	21,285.69	(130,189.65)			(60,225.88)
330,264.01	405,092.49	85,464.11	17,568.24	208,175.65			1,862,713.22
323,547.31	393,804.00	85,709.31	38,853.93	77,986.00			1,802,487.34

Cash flows from operating activities:

Receipts from customers  
Payments to suppliers  
Payments to employees  
Payments on behalf of employees

Net cash provided (used) by operating activities

Cash flows from noncapital financing activities:

Miscellaneous revenue  
Transfers out

Net cash provided (used) by noncapital financing activities

Cash flows from investing activities:

Interest income

Net increase in cash and cash equivalents

Cash and cash equivalents, January 1

Cash and cash equivalents, December 31



Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities								
Operating income (loss)	(82,087.87)	(20,283.95)	(51,075.00)	49,301.77	16,572.16	(130,486.92)		(218,059.81)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation expense	80,240.00	7,860.00	51,075.00	14,532.00	4,625.00			158,332.00
Net cash provided (used) by operating activities	(1,847.87)	(12,423.95)	-0-	63,833.77	21,197.16	(130,486.92)		(59,727.81)

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

CITY OF STANLEY  
Stanley, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Agency Funds  
December 31, 2018

	Agency Funds
<u>Assets:</u>	
Cash	84,438.67
<u>Liabilities:</u>	
Due to Other Governments	84,438.67

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

CITY OF STANLEY  
Stanley, North Dakota

Notes to the Financial Statements  
December 31, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stanley operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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.

A. Financial 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 are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government 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, the component units discussed below are included within the city's reporting entity because of the significance of their operational or financial relationship with the city.

**Discretely Presented Component Unit:** The component unit's column in the basic financial statements include the financial data of the city's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the city.

**Stanley Airport Authority:** The Stanley Airport Authority's governing board is appointed by the city's governing board. The city's governing body has the authority to disapprove, amend, or approve the airport authority budget. The airport authority has the authority to issue its own debt.

The financial statements of the discretely presented component unit is presented in the basic financial statements.



## B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, the City of Stanley and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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:* The fund financial statements provide information about the city's funds including its fiduciary funds. Separate statements for each fund category - *governmental, proprietary* and *fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

*General Fund.* This is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Stanley Fund.* This fund accounts for the accumulation of city sales tax to be used by the EDC, city, park and Stanley medical center.

*Building Reserve.* This fund accounts for moneys that the city has set-aside for the future construction of a new city hall building.

*John Rian Street Improvements.* This fund is used to account for expenditures related to the a street improvement project.

*Street Reconstruction and Utility.* This fund is used to account for expenditures related to a potential street improvement project.

*West View 2nd Addition Improvements.* This fund is used to account for expenditures related to water & sewer and street improvements.

The city reports the following major enterprise funds:

*Water.* This fund accounts for the activities of the city's water distribution system.

*Well Water.* This fund is used to account for the city's bulk water sales and related expenses.

*Sewer Lagoon Construction.* This fund accounts for energy impact grants used for a sewer lagoon construction project.

*Sewer.* This fund accounts for the activities of the city's sewage collection system.

*Garbage.* This fund accounts for the activities of the city's garbage collection system.

The city reports the following fund type:

*Agency Funds.* These funds account for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency funds are used to account for various deposits of other governments.

#### C. Measurement Focus and Basis of Accounting

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

#### Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b 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:

- 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 fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (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 position.



### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund 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 with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a 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, 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.

#### D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings and Infrastructure	20 to 75 years
Machinery and Vehicles	6 to 20 years

#### F. Compensated Absences

Vested or accumulated vacation leave and vested sick leave is reported in the government-wide statement of net position. Compensation for unused vacation leave will be granted to all full-time employees upon termination of employment with the city. The employees may carry forward unused vacation leave not to exceed 12 days at the employees current pay rate and unused sick leave not to exceed 90 days at the rate of \$15 per day.

#### 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 position. 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. Pension

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS); additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### I. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.



**Assigned** - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

#### J. Interfund Transactions

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

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

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

#### K. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

#### Note 2 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business 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 deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments 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 or instrumentalities or by any county, city, township, school district, park district or any 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 other securities approved by the banking board.

At December 31, 2018 the city's carrying amount of deposits was \$19,020,292 and the bank balance was \$19,075,856. Of the bank balance, \$2,250,000 was covered by Federal Depository Insurance. The remaining balance of \$16,825,856 was collateralized with securities held by the pledging financial institution's agent in the government's name.

#### Credit Risk

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

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

At December 31, 2018 the city held certificates of deposit in the amount of \$2,830,000, which are all considered deposits.

#### Concentration of Credit Risk

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

#### Note 3 PROPERTY TAXES

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

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

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



Note 4 ECONOMIC DEVELOPMENT LOANS RECEIVABLE

Economic development loans consist of loans to area businesses. The following amount is outstanding at December 31, 2018:

Stanley Fund

Borrower

Rita's Boutique	24,000.00
	=====

Economic development loans will be repaid as per each specific loan agreement. Loans include interest of 0%.

Note 5 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2018 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	1,518,131.25	
John Rian Street Improvements		268,096.20
Street Reconstruction and Utility		203,195.93
West View 2nd Addition Improvements		1,046,839.12

Note 6 CAPITAL ASSETS

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

Primary Government

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	45,000			45,000
Construction in Progress		1,046,710		1,046,710
Total	<u>45,000</u>	<u>1,046,710</u>		<u>1,091,710</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	26,153,543	182,600		26,336,143
Machinery and Vehicles	1,733,797	48,000	33,110	1,748,687
Total	<u>27,887,340</u>	<u>230,600</u>	<u>33,110</u>	<u>28,084,830</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	3,865,389	670,534		4,535,923
Machinery and Vehicles	718,506	159,633	33,110	845,029
Total	<u>4,583,895</u>	<u>830,167</u>	<u>33,110</u>	<u>5,380,952</u>
Total capital assets being depreciated, net	<u>23,303,445</u>	<u>(599,567)</u>		<u>22,703,878</u>
Governmental Activities Capital Assets, Net	<u>23,348,445</u>	<u>447,143</u>	<u>-0-</u>	<u>23,795,588</u>
	=====	=====	=====	=====

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	6,170,647			6,170,647
Machinery and Vehicles	196,899			196,899
<b>Total</b>	<b>6,367,546</b>			<b>6,367,546</b>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,085,023	143,210		1,228,233
Machinery and Vehicles	121,551	15,122		136,673
<b>Total</b>	<b>1,206,574</b>	<b>158,332</b>		<b>1,364,906</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>5,160,972</b>	<b>(158,332)</b>	<b>-0-</b>	<b>5,002,640</b>
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the city as follows:

<u>Governmental Activities:</u>	
General Government	17,140
Public Safety	70,196
Streets and Public Works	741,264
Culture and Recreation	1,567
<b>Total</b>	<b>830,167</b>
	=====
<u>Business-type Activities:</u>	
Water	80,240
Well Water	7,860
Sewer Lagoon	51,075
Garbage	4,625
Sewer	14,532
<b>Total</b>	<b>158,332</b>
	=====



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

Airport Authority

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>
<b>Discretely Presented:</b>				
<b>Component Unit:</b>				
<i>Capital assets not being depreciated:</i>				
Land	330,825	241,850		572,675
<hr/>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,299,960	55,680		3,355,640
Machinery and Vehicles	17,000			17,000
<b>Total</b>	<b>3,316,960</b>	<b>55,680</b>		<b>3,372,640</b>
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	447,769	134,226		581,995
Machinery and Vehicles	10,200	1,700		11,900
<b>Total</b>	<b>457,969</b>	<b>135,926</b>		<b>593,895</b>
<hr/>				
Total capital assets being depreciated, net	2,858,991	(88,246)		2,778,745
<hr/>				
Discretely Presented Component Unit, Net	3,189,816	161,604	-0-	3,351,420
<hr/>				
=====				

Depreciation expense was charged to functions/programs of the component unit as follows:

Authority Airport	135,926
	=====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2018, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Special Assmt. Loans	922,605		25,702	896,903	26,683
Special Assmt. Bonds	5,330,000		635,000	4,695,000	635,000
Compensated Absences *	28,400	2,851		31,251	
<b>Total</b>	<u>6,281,005</u>	<u>2,851</u>	<u>660,702</u>	<u>5,623,154</u>	<u>661,683</u>
	=====	=====	=====	=====	=====

\* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

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

Governmental Activities:

Special Assessment Loan Debt. The city has received loans through the Bank of North Dakota and the United States Department of Agriculture to provide funds for Water and Sewer Main Replacement Improvement District No. 36. Special assessment loans outstanding at December 31, 2018 are as follows:

\$338,000.00 Bank of North Dakota Loan of 2010,  
due in annual installments of \$17,245.00 through  
March 24, 2039 and a final payment of \$17,210  
due on March 24, 2040; interest is at 3%. 274,818.00

\$728,000.00 Rural Development Loan of 2010,  
due in annual installments of \$43,389.00 through  
March 24, 2040; interest is at 4.25%. 612,264.00

\$12,000.00 Rural Development Loan of 2010,  
due in annual installments of \$663.00 through  
March 24, 2039 and a final payment of \$602.00  
due on March 24, 2040; interest is at 3.25%. 9,821.00

Total Special Assessment Loans Payable 896,903.00  
=====

The annual requirements to amortize the outstanding special assessment loans payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	26,683.00	34,585.00
2020	27,701.00	33,567.00
2021	28,759.00	32,508.00
2022	29,858.00	31,409.00
2023	31,000.00	30,266.00
2024-2028	173,774.00	132,563.00
2029-2033	209,871.00	96,465.00
2034-2038	253,663.00	52,674.00
2039-2040	115,594.00	6,775.00
 Total	 <u>896,903.00</u>	 <u>450,812.00</u>
	=====	=====

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the construction of streets and/or water and sewer lines. Special assessment bonds outstanding at December 31, 2018 are as follows:

\$1,860,000 Refunding Improvement Bonds of 2010; due in annual installments of \$110,000 to \$125,000 through May 1, 2025; interest is at 3.25% to 3.6%.	815,000.00
\$3,810,000 Refunding Improvement Bonds of 2011; due in annual installments of \$245,000 to \$270,000 through May 1, 2026; interest is at 2.25% to 3.25%.	2,070,000.00
\$505,000 Refunding Improvement Bonds of 2012; due in annual installments of \$45,000 to \$50,000 through May 1, 2021; interest is at 1.65%.	145,000.00
\$660,000 Refunding Improvement Bonds of 2014; due in annual installments of \$45,000 to \$50,000 through May 1, 2029; interest is at 2% to 3%.	515,000.00
\$785,000 Refunding Improvement Bonds of 2015; due in annual installments of \$85,000 to \$90,000 through May 1, 2029; interest is at 1.5%.	515,000.00
\$675,000 Refunding Improvement Bonds of 2016; due in annual installments of \$45,000 to \$50,000 through May 1, 2032; interest is at 2%.	635,000.00
 Total Special Assessment Bonds Payable	 <u>4,695,000.00</u>
	=====

The annual requirements to amortize the outstanding special assessment bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2019	635,000.00	114,193.75
2020	620,000.00	99,712.50
2021	610,000.00	84,967.50
2022	560,000.00	70,160.00
2023	540,000.00	55,557.50
2024-2028	1,505,000.00	96,166.25
2029-2032	225,000.00	7,875.00
 Total	 <u>4,695,000.00</u>	 <u>528,632.50</u>
	=====	=====

Note 8 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
District #47/Street General Fund	66,675.23	66,675.23
To eliminate deficit balance.		
Stanley Fund: City Fund	104,333.28	
Stanley Fund: EDC Fund		104,333.28
To transfer funds in excess of \$150,000 cap.		
District No. 32	6,386.00	
District No. 33	4,257.00	
District No. 36	12,253.00	
District No. 37	10,234.00	
District No. 38	6,691.00	
District No. 39	2,755.00	
District No. 41	4,281.00	
District No. 42	5,522.00	
District No. 43	21,209.00	
District No. 47 General Fund	12,592.00	86,180.00
To subsidize debt service payments/payoff city share of specials.		
District No. 36: Emergency/Extension W&S	4,416.00	
Asset Management	4,800.00	
Water Operating		9,216.00
To set-aside funds per USDA requirements.		

Note 9 DEFICIT FUND BALANCES

The following funds had a deficit balance for the year ending December 31, 2018:

<u>Capital Projects Funds</u>	
John Rian Street Improvements	(268,096.20)
Street Reconstruction and Utility	(203,195.93)
West View 2nd Addition Improvements	(1,046,839.12)

The city plans on eliminating these deficits with future revenue collections, issuance of special assessment bonds and/or transfers from other funds.



Note 10 RISK MANAGEMENT

The City of Stanley 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, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$1,762,356 for public assets.

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 \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 11 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by active membership of the NDPERS system; one member elected by the retired public employees; and two members of the legislative assembly appointed by the chairman of the legislative management.

#### **Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

#### **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.



### Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

### Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service -  
Greater of one percent of monthly salary or \$25
- 13 to 25 months of service -  
Greater of two percent of monthly salary or \$25
- 25 to 36 months of service -  
Greater of three percent of monthly salary or \$25
- Longer than 36 months of service -  
Greater of four percent of monthly salary or \$25

### Pension Liabilities, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the City of Stanley reported a liability of \$1,087,406 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2017 the city's proportion was .067653 percent, which was a decrease of .021808 from its proportion measured as of June 30, 2016.

For the year ended December 31, 2018 the city recognized pension expense of \$152,612. At December 31, 2018 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	6,463	5,298
Changes in assumptions	445,910	24,526
Net difference between projected and actual earnings on pension plan investments	14,625	
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,657	136,817
City contributions subsequent to the measurement date (see below)	59,917	
Total	<u>581,572</u>	<u>166,641</u>
	=====	=====

\$59,917 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30: -----	
2019	82,811
2020	102,878
2021	87,301
2022	51,984
2023	30,040
Thereafter	0

**Actuarial assumptions.** The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.50%

Salary increases	Service at Beginning of Year	Increase Rate
	-----	-----
	0	15.00%
	1	10.00%
	2	8.00%
	Age *	
	-----	
	Under 36	8.00%
	36 - 40	7.50%
	41 - 49	6.00%
	50+	5.00%

\* Age-based salary increase rates apply for employees with three or more years of service.

Investment rate of return 7.75%, net of investment expenses.  
Cost-of-living adjustments None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.



The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2017, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.05%
International Equity	21%	6.70%
Private Equity	5%	10.20%
Domestic Fixed Income	17%	1.43%
International Equity Income	5%	-0.45%
Global Real Assets	20%	5.16%
Cash Equivalents	1%	0.00%

**Discount rate.** For PERS, GASB No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contribution, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payment payments through the year 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2061. and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

**Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate.** The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 6.44 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

	1% Decrease (5.44%)	Current Rate (6.44%)	1% Increase (7.44%)
	-----	-----	-----
The city's proportionate share of the net pension liability	1,476,187	1,087,406	763,956

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

CITY OF STANLEY  
Stanley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	584,254.00	584,254.00	567,728.20	(16,525.80)
Licenses, Permits and Fees	41,450.00	41,450.00	41,632.88	182.88
Intergovernmental	2,404,000.00	2,404,000.00	4,209,708.91	1,805,708.91
Charges for Services	900.00	900.00	3.00	(897.00)
Fines and Forfeits	17,000.00	17,000.00	32,710.00	15,710.00
Miscellaneous	58,400.00	58,400.00	135,644.25	77,244.25
<b>Total Revenues</b>	<b>3,106,004.00</b>	<b>3,106,004.00</b>	<b>4,987,427.24</b>	<b>1,881,423.24</b>
<u>Expenditures:</u>				
Current:				
General Government	1,061,650.00	1,061,650.00	894,358.52	167,291.48
Public Safety	587,976.00	587,976.00	458,468.05	129,507.95
Streets and Public Works	205,000.00	205,000.00	164,292.75	40,707.25
Capital Outlay	4,300,000.00	4,300,000.00	230,600.00	4,069,400.00
<b>Total Expenditures</b>	<b>6,154,626.00</b>	<b>6,154,626.00</b>	<b>1,747,719.32</b>	<b>4,406,906.68</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(3,048,622.00)</b>	<b>(3,048,622.00)</b>	<b>3,239,707.92</b>	<b>6,288,329.92</b>
<u>Other Financing (Uses):</u>				
Transfers Out	(216,180.00)	(216,180.00)	(152,855.23)	63,324.77
<b>Net Change in Fund Balances</b>	<b>(3,264,802.00)</b>	<b>(3,264,802.00)</b>	<b>3,086,852.69</b>	<b>6,351,654.69</b>
<b>Fund Balance - January 1</b>	<b>7,376,454.66</b>	<b>7,376,454.66</b>	<b>7,376,454.66</b>	
<b>Fund Balance - December 31</b>	<b>4,111,652.66</b>	<b>4,111,652.66</b>	<b>10,463,307.35</b>	<b>6,351,654.69</b>



CITY OF STANLEY  
Stanley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Stanley Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	1,102,000.00	1,102,000.00	1,262,947.70	160,947.70
Miscellaneous	85,392.00	85,392.00	10,303.63	(75,088.37)
<b>Total Revenues</b>	<b>1,187,392.00</b>	<b>1,187,392.00</b>	<b>1,273,251.33</b>	<b>85,859.33</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	300,000.00	300,000.00	129,162.74	170,837.26
Urban and Economic Development	200,000.00	200,000.00	693,759.51	(493,759.51)
Culture and Recreation	200,000.00	200,000.00	0.00	200,000.00
<b>Total Expenditures</b>	<b>700,000.00</b>	<b>700,000.00</b>	<b>822,922.25</b>	<b>(122,922.25)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>487,392.00</b>	<b>487,392.00</b>	<b>450,329.08</b>	<b>(37,062.92)</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In			104,333.28	104,333.28
Transfers Out			(104,333.28)	(104,333.28)
<b>Total Other Financing Sources (Uses)</b>			<b>0.00</b>	<b>0.00</b>
<b>Net Change in Fund Balances</b>	<b>487,392.00</b>	<b>487,392.00</b>	<b>450,329.08</b>	<b>(37,062.92)</b>
<b>Fund Balance - January 1</b>	<b>3,274,922.51</b>	<b>3,274,922.51</b>	<b>3,274,922.51</b>	
<b>Fund Balance - December 31</b>	<b>3,762,314.51</b>	<b>3,762,314.51</b>	<b>3,725,251.59</b>	<b>(37,062.92)</b>

CITY OF STANLEY  
Stanley, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Building Reserve Fund  
For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Miscellaneous	45,300.00	45,300.00	77,484.91	32,184.91
<u>Expenditures:</u>				
Current:				
Streets and Public Works	41,500.00	41,500.00	146,473.25	(104,973.25)
Net Change in Fund Balances	3,800.00	3,800.00	(68,988.34)	(72,788.34)
Fund Balance - January 1	2,195,028.47	2,195,028.47	2,195,028.47	
Fund Balance - December 31	2,198,828.47	2,198,828.47	2,126,040.13	(72,788.34)

CITY OF STANLEY  
Stanley, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues 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 official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the city's budget for the year ending December 31, 2018.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ending December 31, 2018:

<u>Special Revenue Funds</u>	
Stanley Fund	122,922.25
Building Reserve	104,973.25
City Visitors Promotion	117,175.00
Library	2,348.02
<u>Debt Service Funds</u>	
District No. 32	54.50
District No. 33	409.78
District No. 36	8,678.57
District No. 37	207.92
District No. 41	7.20
District No. 42	2.82
District No. 43	95.73
District No. 44	29.65
District No. 45	3.54
District No. 47	141.00
District No. 49	153.00

No remedial action is anticipated or required by the city regarding these excess expenditures.



CITY OF STANLEY  
Stanley, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
	-----	-----	-----	-----
City's proportion of the net pension liability	0.067653%	0.089461%	0.090451%	0.075173%
City's proportionate share of the net pension liability	1,087,406	871,885	615,051	477,139
City's covered-employee payroll	862,925	916,310	816,466	654,693
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	126.01%	95.15%	75.33%	72.88%
Plan fiduciary net position as a percentage of the total pension liability	61.98%	70.46%	77.15%	77.70%

Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2018	2017	2016	2015
	-----	-----	-----	-----
Statutorily required contribution	61,440	65,241	58,132	43,655
Contributions in relation to the statutorily required contribution	(61,440)	(65,241)	(58,132)	(43,655)
Contribution deficiency (excess)	0	0	0	0
City's covered-employee payroll	862,925	916,310	816,466	654,693
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	6.67%

\* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 11 to the financial statements.

CITY OF STANLEY  
Stanley, North Dakota

Schedule of Fund Activity Arising from Cash Transactions  
For the Year Ended December 31, 2018

	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<b>Major Governmental Funds:</b>						
General Fund:						
Operating	6,968,133.26	4,986,255.68		152,855.23	1,747,719.32	10,053,814.39
Interim	408,321.40	1,171.56				409,492.96
Stanley Fund:						
EDC	150,000.00	398,093.28		104,333.28	293,760.00	150,000.00
City	2,798,143.04	269,563.30	104,333.28		129,162.74	3,042,876.88
Park	210,585.89	262,289.18				472,875.07
Hospital		435,499.15			399,999.51	35,499.64
Building Reserve	2,195,028.47	77,484.91			146,473.25	2,126,040.13
John Rian Street Improvements	(268,096.20)					(268,096.20)
Street Reconstruction and Utility	(202,595.93)				600.00	(203,195.93)
West View 2nd Add. Improvements:						
District 50 - Water & Sewer					481,912.58	(481,912.58)
District 51 - Streets					564,926.54	(564,926.54)
<b>Total Major Governmental Funds</b>	<b>12,259,519.93</b>	<b>6,430,357.06</b>	<b>104,333.28</b>	<b>257,188.51</b>	<b>3,764,553.94</b>	<b>14,772,467.82</b>
<b>Non-Major Governmental Funds:</b>						
Municipal Highway	59,491.21	145,185.64			168,017.11	36,659.74
Special Assessment Deficiency	18,621.08	53.42				18,674.50
Emergency		4,334.21				4,334.21
City Visitors Promotion	39,354.40	121,538.71			117,175.00	43,718.11
Library	62,248.67	75,341.57			99,723.02	37,867.22
Equipment Replacement	25,222.78	72.37				25,295.15
Walking Trail Donation	30,800.43	85.88				30,886.31
Stanley Fire Dept. Reserve	344,130.70	85,812.25				429,942.95
District No. 36:						
Debt Service	325,439.47	71,621.42	12,253.00		70,037.57	339,276.32
Emergency Ext. Water/Sewer	34,923.01	100.21	4,416.00			39,439.22
Asset Management	38,588.90	110.72	4,800.00			43,499.62
Refunding Impr. Bonds of 2010:						
District No. 41	43,221.88	10,724.98	4,281.00		21,564.20	36,663.66
District No. 42	59,241.43	21,252.31	5,522.00		27,811.82	58,203.92
District No. 43	342,766.75	69,126.14	21,209.00		106,842.73	326,259.16
Refunding Impr. Bonds of 2011:						
District No. 44	534,218.50	121,539.14			194,227.65	461,529.99
District No. 45	72,091.42	78,343.03			80,412.54	70,021.91
District No. 46	29,444.71	62,844.56			67,273.81	25,015.46
Refunding Impr. Bonds of 2012:						
District No. 32	62,411.60	15,763.59	6,386.00		32,237.50	52,323.69
District No. 33	52,420.35	11,241.86	4,257.00		22,031.78	45,887.43
Refunding Improv. Bonds of 2014:						
District No. 47	(65,469.53)	62,895.30	79,267.23		64,101.00	12,592.00
Refunding Impr. Bonds of 2015:						
District No. 37	108,191.81	26,277.75	10,234.00		51,750.92	92,952.64
District No. 38	90,851.05	18,593.02	6,691.00		25,076.14	91,058.93
District No. 39	9,488.45	15,899.52	2,755.00		13,932.94	14,210.03
Refunding Impr. Bonds of 2016:						
District No. 49	4,650.53	74,188.12			54,253.00	24,585.65
<b>Total Non-Major Governmental Funds</b>	<b>2,322,349.60</b>	<b>1,092,945.72</b>	<b>162,071.23</b>		<b>1,216,468.73</b>	<b>2,360,897.82</b>
<b>Total Governmental Funds</b>	<b>14,581,869.53</b>	<b>7,523,302.78</b>	<b>266,404.51</b>	<b>257,188.51</b>	<b>4,981,022.67</b>	<b>17,133,365.64</b>

(continued)

CITY OF STANLEY  
Stanley, North Dakota

Schedule of Fund Activity Arising from Cash Transactions  
For the Year Ended December 31, 2018  
(continued)

	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<u>Major Enterprise Funds:</u>						
Water	330,264.01	734,478.82		9,216.00	731,979.52	323,547.31
Well Water	405,092.49	39,453.16			50,741.65	393,804.00
Sewer Lagoon Construction	85,464.11	245.20				85,709.31
Sewer	816,148.72	180,164.00			113,725.93	882,586.79
Garbage	17,568.24	268,182.01			246,896.32	38,853.93
<b>Total Major Enterprise Funds</b>	<b>1,654,537.57</b>	<b>1,222,523.19</b>		<b>9,216.00</b>	<b>1,143,343.42</b>	<b>1,724,501.34</b>
<u>Non-Major Enterprise Funds:</u>						
Sanitation Equipment Replacement	77,762.88	223.12				77,986.00
Water Pipeline Project: Capital Replacement	130,412.77	74.15			130,486.92	0.00
<b>Total Non-Major Enterprise Funds</b>	<b>208,175.65</b>	<b>297.27</b>			<b>130,486.92</b>	<b>77,986.00</b>
<b>Total Enterprise Funds</b>	<b>1,862,713.22</b>	<b>1,222,820.46</b>		<b>9,216.00</b>	<b>1,273,830.34</b>	<b>1,802,487.34</b>
<u>Fiduciary Fund</u>						
<u>Agency Funds:</u>						
Park	12,836.40	77,955.14			75,369.99	15,421.55
Community Development Block Grant	5,834.33					5,834.33
Stanley Airport Authority	60,096.96	125,699.37			122,613.54	63,182.79
<b>Total Agency Funds</b>	<b>78,767.69</b>	<b>203,654.51</b>			<b>197,983.53</b>	<b>84,438.67</b>
<b>Total Primary Government</b>	<b>16,523,350.44</b>	<b>8,949,777.75</b>	<b>266,404.51</b>	<b>266,404.51</b>	<b>6,452,836.54</b>	<b>19,020,291.65</b>
<u>Discretely Presented</u>						
<u>Component Unit:</u>						
Stanley Airport Authority	281,290.49	459,633.49			402,714.01	338,209.97
<b>Total Reporting Entity</b>	<b>16,804,640.93</b>	<b>9,409,411.24</b>	<b>266,404.51</b>	<b>266,404.51</b>	<b>6,855,550.55</b>	<b>19,358,501.62</b>



# Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA

Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Stanley  
Stanley, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Stanley, Stanley, 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, and have issued our report thereon dated February 1, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the city'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 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the city'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 or other matters that are required to be reported under *Government Auditing Standards*.

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

The city's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the city's internal control or on compliance. This 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.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

February 1, 2019

CITY OF STANLEY  
Stanley, North Dakota

Schedule of Findings and Responses  
For the Year Ended December 31, 2018

**SECTION I - SUMMARY OF AUDIT RESULTS:**

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified	Cash Basis
Business-Type Activities	Unmodified-Modified	Cash Basis
Discretely Presented Component Unit	Unmodified-Modified	Cash Basis
Major Governmental Funds	Unmodified-Modified	Cash Basis
Major Business-Type Funds	Unmodified-Modified	Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified	Cash Basis

Internal control over financial reporting:

\* Material weakness(es) identified?                           Yes              X   No

\* Significant deficiency(ies) identified?              X   Yes                   None Reported

Noncompliance Material to financial  
statements noted?           Yes              X   No

**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. Segregation of Duties

*Condition:* The city has one person responsible for most accounting functions.

*Criteria:* There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

*Effect:* There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

*Recommendation:* Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.



## 2. Financial Statement Preparation

*Condition:* The city's financial statements as of December 31, 2018 are prepared by the city's external auditors.

*Criteria:* A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

*Recommendation:* We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the city to prepare its own financial statements.