

**CITY OF DODGE
DODGE, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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CITY OF DODGE
CITY OFFICIALS
DECEMBER 31, 2019

Elected Officials

Leonard Streifel
Kelly Wolff
Amy Gervers
Toni Jones
Mindy Dutenhefer

Mayor
Commissioner
Commissioner
Commissioner
Commissioner

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Dodge
Dodge, 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, and each major fund of the City of Dodge, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the of the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 unmodified and qualified audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Water and Sewer System	Unmodified
Highway Distribution	Unmodified
Sewer Utility Fund	Unmodified
Water Utility Fund	Unmodified
Solid Waste Utility Fund	Unmodified

Basis for Qualified Opinion on the Governmental Activities

Management has reported capital assets purchased prior to 2018 on a basis that is not in accordance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting. See Note 2 for additional information. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material aspects, the respective modified cash basis financial position of the governmental activities of the City of Dodge, as of December 31, 2019, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Unmodified 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 business type activities and each of the City of Dodge, North Dakota, as of December 31, 2019, 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 as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the City of Dodge's basic financial statements. The combining fund schedules and budgetary comparison schedule are presented for purposes of additional analysis and are not required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining fund schedules, budgetary comparison schedule, and schedule of expenditures of federal awards 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 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 combining fund schedules, budgetary schedule, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The listing of city officials has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the City of Dodge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Dodge's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Dodge's internal controls over financial reporting and compliance.



**BRADY, MARTZ AND ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA**

December 10, 2020

CITY OF DODGE
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,857,352	\$ 227,996	\$ 2,085,348
Certificates of Deposit	195,658	6,530	202,188
Internal Balances	236,694	(236,694)	-
Capital Assets, not being depreciated:			
Land	25,000	-	25,000
Construction Work in Progress	565,257	-	565,257
Capital Assets (net of depreciation):			
Improvements	788,531	-	788,531
Machinery and Equipment	82,143	-	82,143
Total Assets	<u>3,750,635</u>	<u>(2,168)</u>	<u>3,748,467</u>
LIABILITIES			
Noncurrent Liabilities:			
Due Within One Year:			
Revenue Bonds Payable	4,578	-	4,578
Due After One Year:			
Revenue Bonds Payable	295,422	-	295,422
Total Liabilities	<u>300,000</u>	<u>-</u>	<u>300,000</u>
NET POSITION			
Net investment in Capital Assets	1,160,931	-	1,160,931
Restricted for:			
Public Safety	93,188	-	93,188
Culture and Recreation	1,000	-	1,000
Capital Projects	300,903	-	300,903
Unrestricted	<u>1,894,613</u>	<u>(2,168)</u>	<u>1,892,445</u>
Total Net Position	<u>\$ 3,450,635</u>	<u>\$ (2,168)</u>	<u>\$ 3,448,467</u>

See Notes to the Financial Statements

CITY OF DODGE
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government	\$ 245,225	\$ 5,839	\$ -	\$ -	\$ (239,386)		\$ (239,386)
Public Safety	55,459	-	-	-	(55,459)		(55,459)
Public Works	10,093	-	-	834,157	824,064		824,064
Culture and Recreation	13,892	-	449	-	(13,443)		(13,443)
Total Governmental Activities	324,669	5,839	449	834,157	515,776		515,776
Business-type Activities:							
Sewer	7,382	4,395	-	-		\$ (2,987)	(2,987)
Water	22,924	13,660	-	-		(9,264)	(9,264)
Solid waste	13,017	12,091	-	-		(926)	(926)
Total Business-type Activities	43,323	30,146	-	-		(13,177)	(13,177)
Total Primary Government	\$ 367,992	\$ 35,985	\$ 449	\$ 834,157	515,776	(13,177)	502,599
<u>General Revenues</u>							
Property, Delinquent, Mobile Home Taxes	\$ 4,327	\$ -	\$ -	\$ -	\$ 4,327		\$ 4,327
State Aid Distribution	8,504	-	-	-			8,504
Cigarette Taxes	229	-	-	-			229
Highway Tax Distribution	20,134	-	-	-			20,134
Oil and Gas Production Taxes	799,458	-	-	-			799,458
Interest	17,106					66	17,172
Miscellaneous	1,142					-	1,142
Transfers	44,815					(44,815)	-
Total General Revenues and Transfers	\$ 895,715	\$ (44,749)	\$ -	\$ -	\$ 850,966		\$ 850,966
Change in Net Position	1,411,491	(57,926)					1,353,565
Net Position - beginning of year	2,039,144	55,758					2,094,902
Net Position - December 31	\$ 3,450,635	\$ (2,168)					\$ 3,448,467

See Notes to the Financial Statements

CITY OF DODGE
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
DECEMBER 31, 2019

	General	Water and Sewer System	Highway Distribution	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,531,726	\$ 300,903	\$ 24,723	\$ 1,857,352
Certificates of Deposit	132,285	-	63,373	195,658
Due from other funds	231,602	-	5,092	236,694
Total assets	<u>\$ 1,895,613</u>	<u>\$ 300,903</u>	<u>\$ 93,188</u>	<u>\$ 2,289,704</u>
FUND BALANCES				
Restricted for:				
Public Safety	\$ -	\$ -	\$ 93,188	\$ 93,188
Culture and Recreation	1,000	-	-	1,000
Capital Projects	-	300,903	-	300,903
Unassigned	1,894,613	-	-	1,894,613
Total fund balances	<u>\$ 1,895,613</u>	<u>\$ 300,903</u>	<u>\$ 93,188</u>	<u>\$ 2,289,704</u>

See Notes to the Financial Statements

CITY OF DODGE
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

Total Fund Balances for Governmental Funds	\$ 2,289,704
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Amounts reported for governmental activities in the statement of net position are different because:

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

Land	25,000	
Construction Work in Progress	565,257	
Improvements (net of accumulated depreciation)	788,531	
Machinery and Equipment (net of accumulated depreciation)	<u>82,143</u>	
Total Capital Assets		1,460,931

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Revenue Bonds Payable, net of premium	<u>(300,000)</u>
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Total Net Position of Governmental Activities	<u><u>\$ 3,450,635</u></u>
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See Notes to the Financial Statements

CITY OF DODGE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General	Water and Sewer System	Highway Distribution	Total Governmental Funds
REVENUES				
Taxes	\$ 229	\$ -	\$ 20,134	\$ 20,363
Licenses and Permits	814	-	-	814
Intergovernmental	812,289	834,157	-	1,646,446
Interest	16,348	-	758	17,106
Rent	5,025	-	-	5,025
Donations	449	-	-	449
Miscellaneous	942	-	200	1,142
Total Revenues	836,096	834,157	21,092	1,691,345
EXPENDITURES				
Current:				
General Government	223,504	-	-	223,504
Public Safety	44,000	-	11,459	55,459
Public Works	-	10,093	-	10,093
Culture and Recreation	13,892	-	-	13,892
Capital Outlay	250,157	1,123,361	-	1,373,518
Total Expenditures	531,553	1,133,454	11,459	1,676,466
Excess (Deficiency) of Revenues Over (Under) Expenditures	304,543	(299,297)	9,633	14,879
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	300,000	-	300,000
Transfers in	44,815	300,200	-	345,015
Transfers out	(300,200)	-	-	(300,200)
Total Other Financing Sources and Uses	(255,385)	600,200	-	344,815
Net Change in Fund Balances	49,158	300,903	9,633	359,694
Fund Balances - beginning of year	1,846,455	-	83,555	1,930,010
Fund Balances - December 31	\$ 1,895,613	\$ 300,903	\$ 93,188	\$ 2,289,704

See Notes to the Financial Statements

CITY OF DODGE
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Net Change in Fund Balances-Total Governmental Funds	\$ 359,694
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Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Outlay	1,373,518	
Depreciation	(21,721)	
Total		1,351,797

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Issuance of Bonds	(300,000)
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Change in Net Position of Governmental Activities	\$ 1,411,491
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CITY OF DODGE
STATEMENT OF NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
DECEMBER 31, 2019

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 196,735	\$ 4,247	\$ 27,014	\$ 227,996
Certificates of Deposit	-	6,530	-	6,530
Total Current Assets	<u>196,735</u>	<u>10,777</u>	<u>27,014</u>	<u>234,526</u>
LIABILITIES				
Due to other funds	<u>201,488</u>	<u>2,548</u>	<u>32,658</u>	<u>236,694</u>
NET POSITION				
Unrestricted	<u>(4,753)</u>	<u>8,229</u>	<u>(5,644)</u>	<u>(2,168)</u>
Total Net Position	<u>\$ (4,753)</u>	<u>\$ 8,229</u>	<u>\$ (5,644)</u>	<u>\$ (2,168)</u>

CITY OF DODGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
Operating Revenues:				
Charges for Services:	\$ 4,395	\$ 13,660	\$ 12,091	\$ 30,146
Total Operating Revenues	<u>4,395</u>	<u>13,660</u>	<u>12,091</u>	<u>30,146</u>
Operating Expenses:				
Water purchases	-	16,112	-	16,112
Garbage contracted services	-	-	12,300	12,300
Utilities	-	1,915	-	1,915
Supplies	320	2,361	-	2,681
Repairs and maintenance	7,062	2,536	-	9,598
Miscellaneous	-	-	717	717
Total Operating Expenses	<u>7,382</u>	<u>22,924</u>	<u>13,017</u>	<u>43,323</u>
Operating Income (Loss)	<u>(2,987)</u>	<u>(9,264)</u>	<u>(926)</u>	<u>(13,177)</u>
Nonoperating Revenues (Expenses):				
Interest	-	66	-	66
Income (loss) before transfers	<u>(2,987)</u>	<u>(9,198)</u>	<u>(926)</u>	<u>(13,111)</u>
Transfers Out	<u>-</u>	<u>(44,815)</u>	<u>-</u>	<u>(44,815)</u>
Change in Net Position	<u>(2,987)</u>	<u>(54,013)</u>	<u>(926)</u>	<u>(57,926)</u>
Net Position - Beginning of Year	<u>(1,766)</u>	<u>62,242</u>	<u>(4,718)</u>	<u>55,758</u>
Net Position - End of Year	<u>\$ (4,753)</u>	<u>\$ 8,229</u>	<u>\$ (5,644)</u>	<u>\$ (2,168)</u>

CITY OF DODGE
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Sewer Utility</u>	<u>Water Utility</u>	<u>Solid Waste Utility</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 4,395	\$ 13,660	\$ 12,091	\$ 30,146
Payments to suppliers	<u>(8,271)</u>	<u>(22,777)</u>	<u>(717)</u>	<u>(31,765)</u>
Net cash provided (used) by operating activities:	<u>(3,876)</u>	<u>(9,117)</u>	<u>11,374</u>	<u>(1,619)</u>
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES				
Transfers in (out)	<u>-</u>	<u>(44,815)</u>	<u>-</u>	<u>(44,815)</u>
Net cash provided (used) by investing activities:	<u>-</u>	<u>(44,815)</u>	<u>-</u>	<u>(44,815)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>-</u>	<u>66</u>	<u>-</u>	<u>66</u>
Net cash provided (used) by investing activities:	<u>-</u>	<u>66</u>	<u>-</u>	<u>66</u>
Net increase (decrease) in cash and cash equivalents	(3,876)	(53,866)	11,374	(46,368)
Cash and Cash Equivalents - January 1	<u>200,611</u>	<u>58,113</u>	<u>15,640</u>	<u>274,364</u>
Cash and Cash Equivalents - December 31	<u>\$ 196,735</u>	<u>\$ 4,247</u>	<u>\$ 27,014</u>	<u>\$ 227,996</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (2,987)	\$ (9,264)	\$ (926)	\$ (13,177)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Changes in:				
Due (to) froms	<u>(889)</u>	<u>147</u>	<u>12,300</u>	<u>11,558</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (3,876)</u>	<u>\$ (9,117)</u>	<u>\$ 11,374</u>	<u>\$ (1,619)</u>

See Notes to the Financial Statements

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 1 DESCRIPTION OF THE CITY

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City's significant accounting policies are as described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Financial Reporting Entity

For financial reporting purposes, the City has included all funds and activities that make up its legal entity. The City has also included all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include 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.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component units. The City has not identified any entities to be presented as component units of the City.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the reporting entity, except for fiduciary funds. The statements distinguish between governmental activities, which are normally financed through taxes and intergovernmental revenues, and business-type activities, which are normally financed in whole or in part by fees and charges for services.

The Statement of Net Position presents the financial condition of the governmental activities and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

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

Each major fund is presented in a separate column in the fund financial statements.

Fund Accounting

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

Governmental Funds

General fund - The general fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital project funds - Capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

Debt service funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. The City does not report any debt service funds.

Major Funds

The funds are further classified as major or nonmajor. The City reports the following major funds:

Governmental

General fund as described above.

Water and Sewer System, a capital projects fund, is used to account for the accumulation of resources and expenditures for the construction of the water and waste system.

Highway Distribution, a special revenue fund, is used to account for the accumulation of resources for highway and road repairs and maintenance expenditures.

Proprietary

Enterprise funds - Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following major enterprise fund.

Sewer Utility, an enterprise fund, is used to account for sewer services provided to the residents of the City.

Water Utility, an enterprise fund, is used to account for water services provided to the residents of the City.

Solid Waste Utility, an enterprise fund, is used to account for solid waste services provided to the residents of the City.

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

Government-wide financial statements

In the government-wide financial statements, both the governmental and business-type activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Fund financial statements

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

All governmental funds and fiduciary funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

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

Basis of Accounting

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected), deferred outflows, 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), and deferred inflows are not recorded in these financial statements. In addition, the City has elected to show all capital assets prior to January 1, 2019 at insured values. Capital assets added subsequent to that date are recorded at cost. Under the modified cash basis of accounting, economic development loans are recorded as expenditures when advanced and collections on the notes receivables are recorded as income when received.

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

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

Budgets and Budgetary Accounting

The City Council follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or about October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The City prepares its budget and reports its governmental funds on the same basis of accounting.

Cash and Cash Equivalents

The City considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include infrastructure, property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. All governmental and business-type activities capital assets in service as of December 31, 2018 are recorded at their appraised values at that time as an estimate of the historical cost. Additions made after 2018 are recorded at cost. The assets are updated for additions and retirements during the City's fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized. Donated capital assets are recorded at acquisition value at the date of donation.

The City's capitalization policy is \$25,000 and an estimated useful life in excess of one year or more.

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

Capital assets are depreciated over their estimated useful lives on a straight-line basis. The City has established a useful life of seven years for equipment.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

Long-Term Debt

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

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

Net Position and Fund Balance Classifications

Government-wide Financial Statements

Fund balance/net position is classified as net position and displayed in three components:

- 1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Restricted net position - Consists of net position with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or b) law through constitutional provisions or enabling legislation.
- 3) Unrestricted net position - All other net position that do not meet the definition of net investment in capital assets or restricted.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

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

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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

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

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

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

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

Interfund Transactions

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- 1) Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.
- 2) Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
- 3) Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 4) Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2019

Government-wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- 1) Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.
- 2) Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the statement of activities.

Property Taxes

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1st of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15th. Penalty and interest are added on March 1st if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

Taxes are collected by the county and remitted monthly to the City.

Insurance Recoveries

Insurance recoveries are classified under miscellaneous revenue in the fund financial statements. These amounts are factored into gain/loss on the disposal of capital assets on the government wide financial statements, which is included in general government expenses on the statement of activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting 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 3 DEPOSITS

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

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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.

Credit Risk:

The City may invest idle funds as authorized in North Dakota statutes, as follows:

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

As of December 31, 2019, the City had investments in certificates of deposits as authorized by statutes. These amounts are classified as investments on the financial statements in accordance with the City's policy.

Custodial Credit Risk

This is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The City maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2019, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$1,521,513 of the City's deposits are covered by pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Concentration of Credit Risk:

The City does not have a limit on the amount the City may invest in any one issuer. The City has no formal investment policy.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

NOTE 4 INTERFUND ACCOUNTS AND TRANSFERS

Interfund balances at December 31, 2019, consist of the following:

Fund	Due to	Due from
General	\$ -	\$ 231,602
Highway	-	5,092
Sewer Utility	201,488	-
Water Utility	2,548	-
Solid Waste Utility	32,658	-
	<u>\$ 236,694</u>	<u>\$ 236,694</u>

These balances result in construction and other operating expenses paid for by the general and highway fund for business type funds. These amounts are expected to be repaid in 2020.

Interfund Transfers

A summary of interfund transfers for the fiscal year ended December 31, 2019, follows:

Fund	Transfers In	Transfers Out
General	\$ 44,815	\$ 300,200
Water and Sewer System	300,200	-
Water Utility	-	44,815
	<u>\$ 345,015</u>	<u>\$ 345,015</u>

Transfers were to cover costs related to the construction of the water and sewer system project and reimbursements for prior construction costs covered by the general fund.

NOTE 5 CAPITAL ASSETS

The following is a summary of capital assets during the fiscal year ending December 31, 2019:

	Balance 1/1/2019	Additions	Deletions	Balance 12/31/19
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 25,000	\$ -	\$ 25,000
Construction work in progress	10,562	1,348,518	(793,823)	565,257
Total capital assets not being depreciated:	<u>10,562</u>	<u>1,373,518</u>	<u>(793,823)</u>	<u>590,257</u>
Capital assets being depreciated:				
Improvements	-	793,823	-	793,823
Machinery and equipment	115,000	-	-	115,000
Total capital assets being depreciated:	<u>115,000</u>	<u>793,823</u>	<u>-</u>	<u>908,823</u>
Less accumulated depreciation for:				
Improvements	-	5,292	-	5,292
Machinery and equipment	16,428	16,429	-	32,857
Total accumulated depreciation	<u>16,428</u>	<u>21,721</u>	<u>-</u>	<u>38,149</u>
Total capital assets being depreciated, net	<u>98,572</u>	<u>772,102</u>	<u>-</u>	<u>870,674</u>

Depreciation expense for the governmental activities of \$16,429 was charged to General Government in the Statement of Activities.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City of Dodge for the year ended December 31, 2019:

<u>Governmental Activities</u>	<u>Balance 1/1/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/19</u>	<u>Due Within One Year</u>
Loans Payable	\$ -	\$ 300,000	\$ -	\$ 300,000	\$ 4,578

Long term debt at December 31, 2019 consists of the following individual issues:

Governmental Activities

\$300,000 USDA loan due in annual principal and interest installments of \$11,703 through June 5, 2059; annual interest payments at 2.375%.

Paid by the Water and Sewer System fund.

\$ 300,000

The future expected requirements to amortize long term debt, including interest, as of December 31, 2019 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 4,578	\$ 7,125
2021	4,687	7,016
2022	4,798	6,905
2023	4,912	6,791
2024	5,028	6,674
2025-2029	26,992	31,523
2030-2034	30,354	28,161
2035-2039	34,134	24,381
2040-2044	38,384	20,131
2045-2049	43,164	15,351
2050-2054	48,539	9,976
2055-2059	54,430	3,932
	<u>\$ 300,000</u>	<u>\$ 167,966</u>

NOTE 7 PENSION PLAN

The City participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan. 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. The plan provides retirement, disability, and death benefits. The cost to administer the plan is financed through contributions and investment earnings of the plan.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

Responsibility for administration of the NDPERS defined benefit pension plan 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 the active membership of the NDPERS system; and 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 provisions 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 was 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% 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 24 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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019, if City of Dodge were to report on the full accrual basis, a liability of \$48,043 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer'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, 2019, the Employer's proportion was 0.004099%, which was an increase of 0.000405% from its proportionate share measured as of June 30, 2018. There was no net pension liability or deferred inflows or outflows of resources reported on the City's financial statements as they are reporting on the cash basis.

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

Inflation	2.50%		
Salary increases	Service At <u>Beginning of Year</u>	<u>State Employee</u>	<u>Non-State Employee</u>
	0	12.00%	15.00%
	1	9.50%	10.00%
	2	7.25%	8.00%
	<u>Age</u>		
	Under 30	7.25%	10.00%
	30-39	6.50%	7.50%
	40-49	6.25%	6.75%
	50-59	5.75%	6.50%
	60+	5.00%	5.25%

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

Investment rate of return 7.50%, 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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

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 of 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
Global Real Assets	19%	5.41%

Discount Rate

For PERS, GASB Statement 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 contributions, 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.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan 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 the 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.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long-term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019, if City of Dodge were to report on the full accrual basis, a liability of \$3,069 for its proportionate share of the net OPEB liability would have been reported. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2019, the Employer's proportion was 0.003821%, which was an increase of 0.000127% from its proportionate share measured as of June 30, 2018. There was no net pension liability or deferred inflows or outflows of resources reported on the City's financial statements as they are reporting on the cash basis.

Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Not applicable
Investment rate of return	7.25%, net of investment expenses
Cost-of-living adjustments	None

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC 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. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
International Equities	21%	2.07%
Core-Plus Fixed Income	40%	6.95%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 9 RISK MANAGEMENT

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

In 1986, the 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 of Dodge pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability. The City of Dodge also participates in

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

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 State Bonding Fund currently provides the City with 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 of Dodge has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full-time employees.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 10 COMMITMENTS

The City entered into construction contracts for the 2019 Wastewater Lagoon Improvements for a total cost of approximately \$1,575,000. As of December 31, 2019, remaining costs to be paid on this project were approximately \$440,000.

NOTE 11 RECENT PRONOUNCEMENTS

The City will implement the following recent pronouncements for fiscal years ending after 2019:

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

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

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

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined what effect these statements will have on the City's financial statements.

CITY OF DODGE
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
DECEMBER 31, 2019

NOTE 12 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implanted various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the City. While the City expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

Subsequent events have been evaluated through December 10, 2020, which is the date these financial statements were available to be issued.

CITY OF DODGE
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Taxes	\$ -	\$ -	\$ 229	\$ 229
Licenses and Permits	700	700	814	114
Intergovernmental	308,300	308,300	812,289	503,989
Interest	10,000	10,000	16,348	6,348
Rent	1,000	1,000	900	(100)
Miscellaneous	5,000	5,000	942	(4,058)
Total Revenues	<u>325,000</u>	<u>325,000</u>	<u>831,522</u>	<u>506,522</u>
EXPENDITURES				
Current:				
General Government	331,500	331,500	223,504	107,996
Public Safety	30,000	30,000	44,000	(14,000)
Capital Outlay	1,493,000	1,493,000	250,157	1,242,843
Total Expenditures	<u>1,854,500</u>	<u>1,854,500</u>	<u>517,661</u>	<u>1,336,839</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,529,500)</u>	<u>(1,529,500)</u>	<u>313,861</u>	<u>1,843,361</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	44,815	44,815
Transfers Out	-	-	(300,200)	(300,200)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(255,385)</u>	<u>(255,385)</u>
Net Change in Fund Balances	<u>\$ (1,529,500)</u>	<u>\$ (1,529,500)</u>	<u>58,476</u>	<u>\$ 1,587,976</u>
Fund Balances - January 1			<u>1,846,455</u>	
Fund Balances - December 31			<u>\$ 1,904,931</u>	
Reconciliation of General Fund change in fund balance to Statement of Revenues, Expenses, and Change in Fund Balances:				
Change in General Fund per Budget			\$ 58,476	
Change in fund balance attributable to activities not included in General Fund budget:				
Library			<u>(9,318)</u>	
Change in General Fund per Statement of Revenues, Expenses, and Change in Fund Balances			<u>\$ 49,158</u>	

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

To the City Council
City of Dodge
Dodge, North Dakota

We have audited, 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, the modified cash basis financial statements of the governmental activities, business-type activities, and each major fund of City of Dodge, as of and for the year ended December 31, 2019, and the related notes to the modified cash basis financial statements, which collectively comprise City of Dodge's basic financial statements, and have issued our report thereon dated December 10, 2020. A qualified opinion was issued on the governmental activities of the City of Dodge due to the City recording its capital assets purchased prior to 2018 at insured values.

Internal Control over Financial Reporting

In planning and performing our audit of the modified cash basis financial statements, we considered City of Dodge'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Dodge's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Dodge's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2019-001 through 2019-004 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-008 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dodge's financial statements are free from 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 is required to be reported under *Government Auditing Standards*.

City's Responses to Findings

The City of Dodge's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Dodge's responses were not subjected to the auditing procedures applied in the audit of the modified cash basis financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

December 10, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Dodge
Dodge, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Dodge's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City of Dodge's major federal program for the year ended December 31, 2019. The City of Dodge's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Dodge's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dodge's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis of our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Dodge's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Dodge complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the City of Dodge is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City of Dodge's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-007 and 2019-008, that we consider to be significant deficiencies.

The City's response to internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no such opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

December 10, 2020

CITY OF DODGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 1,134,157

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 2 INDIRECT COST RATE

The City has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of City of Dodge under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Dodge, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Dodge.

NOTE 4 FINANCIAL STATEMENT RECONCILIATION

The total amount of federal revenues on the financial statements is \$834,157. This amount, plus current year federal loan distribution of \$300,000 equals the \$1,134,157 as reflected on the schedule of expenditures of federal awards.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Qualified and Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

X yes ___ no

Significant deficiency(ies) identified

not considered to be material weaknesses?

X yes ___ none reported

Non-compliance material to financial statements
noted?

___ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

___ yes X no

Significant deficiency(ies) identified

not considered to be material weaknesses?

X yes ___ none reported

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)?

___ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.760

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish
between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

___ yes X no

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001: Preparation of Financial Statements – Material Weakness

Criteria

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

Condition

The City has engaged its auditors to prepare the modified cash basis financial statements including all disclosures.

Cause

The City elected to not allocate resources for the preparation of the modified cash basis financial statements.

Effect

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

Recommendation

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

Indication of Repeat Finding

This is a new finding.

Views of Responsible Officials and Planned Corrective Actions

The City of Dodge is a small city and it is not cost effective to internally prepare full disclosure financial statements. The City will establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

2019-002: Proposition of Journal Entries – Material Weakness

Criteria

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Cause

The City's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Effect

The City's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Indication of Repeat Finding

This is a new finding.

Views of Responsible Officials and Planned Corrective Actions

The City Auditor will review internal records and determine the proper balance in each general ledger account prior to the audit being done each year.

2019-003: Segregation of Duties - Material Weakness

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause

Size and budget constraints limiting the number of personnel within the accounting department are the causes of this significant deficiency.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The City's current structure does not allow for proper segregation of duties to assure adequate internal control over financial reporting. The Council should constantly be aware of this condition. Compensating controls that mitigate the related risks could be (or are) provided through appropriate oversight of the performance of these functions and review of the financial reports by individuals with knowledge of current operations and accounting principles.

Indication of Repeat Finding

This is a new finding.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Views of Responsible Officials and Planned Corrective Actions

The City of Dodge is a small City and it is not cost effective to have multiple staff to segregate duties. All bills will be presented to the City Council monthly for approval and all financial reports and bank statements will be reviewed at each meeting.

2019-004: Customer Billings – Material Weakness

Criteria

A proper system of internal controls includes approved rates for utility billings.

Condition

The City is billing water utilities at a rate that differs from the rate as approved in the 2013 minutes. No other support was available to substantiate the rate of water utility billings.

Cause

The City does not maintain support for the latest approved utility rates. Billing internal controls were not effectively applied and did not detect the discrepancy between the most recent approved water utility rate and the rate at which customers are charged.

Effect

It appears customers have been undercharged for approximately 500 gallons of water per month when water usage is over 1500 gallons.

Recommendation

We recommend the City Council formally adopt a resolution establishing rates and charges for services from the water and sewer utility fund and garbage fund and ensure the City's billing system is calculating charges based on these approved schedules.

Indication of Repeat Finding

This is a new finding.

Views of Responsible Officials and Planned Corrective Actions

The City will set billing rates and publish them in the Minutes of the City Council Meeting. The Auditor will ensure rates are appropriately set up in the monthly billing system.

2019-005: Lack of Formal Pay Rate Approval – Significant Deficiency

Criteria

Salary or hourly rates should be approved by City Council and documented in employee personnel files.

Condition

During our testing over City payroll transactions, adequate documentation to support approved pay rates for two of the City's four employees was not able to be obtained.

Cause

The City Council approves each employee's pay rate annually, but the City did not maintain supporting records to support these approved pay rates.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Effect

City employees may not be paid at the rate approved by the City Council.

Recommendation

We recommend that City management formally document approved pay rates for all City employees and keep these records in each employee's personnel file.

Indication of Repeat Finding

This is a new finding.

Views of Responsible Officials and Planned Corrective Actions

The City will ensure each City employee's personnel file has appropriate documentation to support their salaried or hourly rate.

2019-006: Depositories – Significant Deficiency

Criteria

The City Council shall designate depositories of public funds in accordance with the provisions of NDCC 21-04-13 at its regular meeting in January of each even-numbered year.

Condition

A depository was not approved in accordance with NDCC 21-04-13 by the required January 2018 meeting.

Cause

An appropriate system of internal controls is not present to ensure the City's depositories were properly designated by the required date.

Effect

The City is not in compliance with NDCC 21-04-13.

Recommendation

We recommend the City implement a process to monitor this to ensure the depositories are approved by the required date.

Indication of Repeat Finding

This is a new finding.

Views of Responsible Officials and Planned Corrective Actions

The City will designate depositories and approved them by the required date in January of every even-numbered year.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2019-007: CFDA #14.760 – Waste and Water Program

Criteria

The City should have a formal written policy for procurement requirements and conflict of interest policies.

Condition

The City follows North Dakota Century Code and federal regulations, but does not have a formal policy for procurement or its handling of conflicts of interest.

Cause

There is no formal policy in place for procurement or conflicts of interest.

Effect

The City may not be in compliance with the Uniform Guidance or North Dakota Century Code procurement and conflict of interest policies.

Recommendation

The City should draft and the Council should approve procurement and conflict of interest policies that comply with the Uniform Guidance and North Dakota Century Code.

Indication of Repeat Finding

This is a new finding.

Questioned Costs

None.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with this finding and has sought legal counsel to assist with drafting procurement and conflict of interest policies.

2019-008: CFDA #14.760 – Waste and Water Program

Criteria

The City should maintain support for compliance with the Davis-Bacon and Related Acts.

Condition

The City nor its contractor maintained appropriate support to substantiate the wages paid to laborers.

Cause

The City did not effectively implement internal controls over compliance with the Davis Bacon and Related Acts.

Effect

The City may not be in compliance with the Uniform Guidance and grant requirements.

CITY OF DODGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Recommendation

The City review contractor's Davis Bacon payroll calculations and ensure appropriate documentation is maintained to support wages paid to laborers.

Indication of Repeat Finding

This is a new finding.

Questioned Costs

None.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with this finding and will properly implement the controls it has designed to ensure compliance with Davis Bacon requirements.



CITY OF DODGE

December 10, 2020

Corrective Action Plan for the year ending December 31, 2019:

2019-001

The City of Dodge is a small city and it is not cost effective to internally prepare full disclosure financial statements. The City will establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

2019-002

The City Auditor will review internal records and determine the proper balance in each general ledger account prior to the audit being done each year.

2019-003

The City of Dodge is a small City and it is not cost effective to have multiple staff to segregate duties. All bills will be presented to the City Council monthly for approval and all financial reports and bank statements will be reviewed at each meeting.

2019-004

The City will set billing rates and publish them in the Minutes of the City Council Meeting. The Auditor will ensure rates are appropriately set up in the monthly billing system.

2019-005

The City will ensure each City employee's personnel file has appropriate documentation to support their salaried or hourly rate.

2019-006

The City will designate depositories and approved them by the required date in January of every even-numbered year.

2019-007

Management agrees with this finding and has sought legal counsel to assist with drafting procurement and conflict of interest policies.

2019-008

Management agrees with this finding and will properly implement the controls it has designed to ensure compliance with Davis Bacon requirements.


Diane Allmendinger, City Auditor