

# **AUDIT REPORT**

CITY OF MOHALL  
Mohall, North Dakota

For the Year Ended December 31, 2019

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

CITY OF MOHALL  
Mohall, North Dakota

TABLE OF CONTENTS  
For the Year Ended December 31, 2019

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2 - 3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Balance Sheet – Modified Cash Basis – Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis	9
Statement of Net Position – Modified Cash Basis – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds	11
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds	12
Notes to the Financial Statements	13 - 30
<b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules – Modified Cash Basis	
General Fund	31
Airport Fund	32
Notes to the Budgetary Comparison Schedules	33
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	34
Schedule of Fund Activity Arising from Cash Transactions	35
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	36 - 37
Schedule of Findings and Responses	38 - 39
Management Letter	40

CITY OF MOHALL  
Mohall, North Dakota

CITY OFFICIALS

Tom Witteman	Mayor
Jim Bender	Council Member
LaVonne Erickson	Council Member
Dawn Larson	Council Member
Robyn Larson	Council Member
Mary Marmon	Council Member
Brandon Reidman	Council Member
Cheryl Overby	Auditor

# Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA  
Ken Mehrer, CPA  
Bryce Fischer, CPA

425 North Fifth Street  
Bismarck, ND 58501  
Phone 701-258-4560  
Fax 701-258-4983

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Mohall  
Mohall, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the city's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, 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 described in Note 1.

## Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## Other Matters

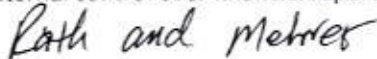
### Other Information

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

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

## Other Reporting Required by Government Auditing Standards

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

January 31, 2020

CITY OF MOHALL  
Mohall, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Mohall Housing Authority
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	1,902,966.20	429,633.29	2,332,599.49	81,157.20
Economic Development Loans	44,500.00		44,500.00	
Capital Assets (net of accumulated depreciation):				
Land	169,502.00	34,460.00	203,962.00	
Construction in Progress	1,212,000.00		1,212,000.00	
Buildings and Infrastructure	892,428.00	418,037.00	1,310,465.00	906,931.00
Vehicles and Machinery	234,739.00	21,300.00	256,039.00	
Total Capital Assets	2,508,669.00	473,797.00	2,982,466.00	906,931.00
Total Assets	4,456,135.20	903,430.29	5,359,565.49	988,088.20
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions	108,839.00		108,839.00	
<b>Liabilities:</b>				
Long-Term Liabilities:				
Due Within One Year:				
Capital Leases Payable	37,643.89		37,643.89	
Special Assessment Bonds Payable	100,000.00		100,000.00	
Revenue Bonds Payable	25,000.00		25,000.00	22,828.00
Due After One Year:				
Special Assessment Bonds Payable	540,000.00		540,000.00	
Revenue Bonds Payable	485,997.00		485,997.00	849,385.00
Compensated Absences Payable	14,589.97		14,589.97	
Net Pension Liability	248,332.00		248,332.00	
Total Liabilities	1,451,562.86		1,451,562.86	872,213.00
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions	23,428.00		23,428.00	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	1,320,028.11	473,797.00	1,793,825.11	34,718.00
Restricted for:				
Debt Service	444,571.62		444,571.62	
Special Purposes	528,406.63		528,406.63	
Maintenance and Repairs		104,901.80	104,901.80	
Unrestricted	796,976.98	324,731.49	1,121,708.47	81,157.20
Total Net Position	3,089,983.34	903,430.29	3,993,413.63	115,875.20

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

CITY OF MOHALL  
Mohall, North Dakota

Statement of Activities - Modified Cash Basis  
December 31, 2019

Functions/Programs	Net (Expense) Revenue and Change in Net Position						
	Program Revenues			Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Mohall Housing Authority
<b>Primary Government</b>							
<u>Governmental Activities:</u>							
General Government	278,734.29	6,363.37		(272,370.92)		(272,370.92)	
Public Safety	67,329.07	390.00		(66,939.07)		(66,939.07)	
Streets and Public Works	248,815.20	1,175.00	68,264.12	(179,376.08)		(179,376.08)	
Urban and Economic Development	31,433.96			(31,433.96)		(31,433.96)	
Culture and Recreation	193,326.72	10,937.50	47,671.43	(134,717.79)		(134,717.79)	
Conservation of Natural Resources	3,471.10			(3,471.10)		(3,471.10)	
Other	379,351.98	30,532.61	231,038.50	(117,780.87)		(117,780.87)	
Interest on Long-Term Debt	20,738.63		107,262.02	86,523.39		86,523.39	
<b>Total Governmental Activities</b>	<b>1,223,200.95</b>	<b>49,398.48</b>	<b>454,236.07</b>	<b>(719,566.40)</b>		<b>(719,566.40)</b>	
<u>Business-Type Activities:</u>							
Water	173,312.33	179,472.84			6,160.51	6,160.51	
Sewer	114,928.61	76,422.78			(38,505.83)	(38,505.83)	
Sanitation	222,663.79	159,663.97			(62,999.82)	(62,999.82)	
Water Sewer Surcharge	4,260.00	15,730.00			11,470.00	11,470.00	
<b>Total Business-Type Activities</b>	<b>515,164.73</b>	<b>431,289.59</b>			<b>(83,875.14)</b>	<b>(83,875.14)</b>	
<b>Total Primary Government</b>	<b>1,738,365.68</b>	<b>480,688.07</b>	<b>454,236.07</b>	<b>(719,566.40)</b>	<b>(83,875.14)</b>	<b>(803,441.54)</b>	
<u>Component Unit:</u>							
Mohall Housing Authority	53,063.56	64,887.69					11,824.13
<u>General Revenues:</u>							
<u>Taxes:</u>							
Property taxes, levied for general purposes				215,054.72		215,054.72	
Property taxes, levied for special purposes				128,967.26		128,967.26	
Sales taxes				157,439.49		157,439.49	
Cigarette taxes				2,061.57		2,061.57	
Oil and gas production taxes				110,604.71		110,604.71	
Intergovernmental revenue not restricted to specific programs				64,172.49		64,172.49	
Earnings on investments and other revenue				36,894.60	10,991.63	47,886.23	60.74
<b>Total General Revenues</b>				<b>715,194.84</b>	<b>10,991.63</b>	<b>726,186.47</b>	<b>60.74</b>
<b>Change in Net Position</b>				<b>(4,371.56)</b>	<b>(72,883.51)</b>	<b>(77,255.07)</b>	<b>11,884.87</b>
<b>Net Position - January 1</b>				<b>3,094,354.90</b>	<b>976,313.80</b>	<b>4,070,668.70</b>	<b>103,990.33</b>
<b>Net Position - December 31</b>				<b>3,089,983.34</b>	<b>903,430.29</b>	<b>3,993,413.63</b>	<b>115,875.20</b>

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



CITY OF MOHALL  
Mohall, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2019

	Major Funds					Total Governmental Funds
	General	City		2010	Other	
		Sales Tax	Airport	Main Street Improvement	Governmental Funds	
<b>ASSETS:</b>						
Cash, Cash Equivalents and Investments	866,336.44	226,816.08	108,151.51	248,540.36	453,121.81	1,902,966.20
Economic Development Loans		44,500.00				44,500.00
Due from City Airport	151,500.00					151,500.00
<b>Total Assets</b>	<b>1,017,836.44</b>	<b>271,316.08</b>	<b>108,151.51</b>	<b>248,540.36</b>	<b>453,121.81</b>	<b>2,098,966.20</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Due to General Fund			151,500.00			151,500.00
<b>Fund Balances:</b>						
<b>Nonexpendable:</b>						
Economic Development Loans		44,500.00				44,500.00
<b>Restricted for:</b>						
General Government					3,534.23	3,534.23
Public Safety					94.11	94.11
Street and Public Works					46,780.36	46,780.36
Urban and Economic Development		226,816.08				226,816.08
Emergency Purposes					5,602.90	5,602.90
Infrastructure					123,764.18	123,764.18
Debt Service				248,540.36	196,031.26	444,571.62
Other Purposes					77,314.77	77,314.77
Unassigned	1,017,836.44		(43,348.49)			974,487.95
<b>Total Fund Balances</b>	<b>1,017,836.44</b>	<b>271,316.08</b>	<b>(43,348.49)</b>	<b>248,540.36</b>	<b>453,121.81</b>	<b>1,947,466.20</b>
<b>Total Liabilities and Fund Balances</b>	<b>1,017,836.44</b>	<b>271,316.08</b>	<b>108,151.51</b>	<b>248,540.36</b>	<b>453,121.81</b>	<b>2,098,966.20</b>

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



CITY OF MOHALL  
Mohall, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2019

Total Fund Balances for Governmental Funds		1,947,466.20
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of Capital Assets	3,873,233.00	
Less Accumulated Depreciation	<u>(1,364,564.00)</u>	
Net Capital Assets		2,508,669.00
The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.		
Total Deferred Outflows of Resources	108,839.00	
Total Deferred Inflows of Resources	<u>(23,428.00)</u>	
Net Deferred Outflows/Inflows of Resources		85,411.00
Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2019 are:		
Capital Leases Payable	(37,643.89)	
Special Assessments Bonds Payable	(640,000.00)	
Revenue Bonds Payable	(510,997.00)	
Compensated Absences Payable	(14,589.97)	
Net Pension Liability	<u>(248,332.00)</u>	
Total Long-Term Liabilities		<u>(1,451,562.86)</u>
Total Net Position of Governmental Activities		<u>3,089,983.34</u>

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

CITY OF MOHALL  
Mohall, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2019

	Major Funds					Total Governmental Funds
	General	City		2010	Other	
		Sales Tax	Airport	Main Street Improvement	Governmental Funds	
<b>Revenues:</b>						
Taxes	215,054.72	47,231.84	94,932.09		144,242.82	501,461.47
Special Assessments				107,262.02		107,262.02
Licenses, Permits and Fees	14,023.37				50.00	14,073.37
Intergovernmental	186,838.77		231,038.50		69,405.55	487,282.82
Charges for Services	4,402.50		30,532.61			34,935.11
Fines and Forfeits	390.00					390.00
Miscellaneous	55,238.95		2,801.08		15,384.57	73,424.60
<b>Total Revenues</b>	<b>475,948.31</b>	<b>47,231.84</b>	<b>359,304.28</b>	<b>107,262.02</b>	<b>229,082.94</b>	<b>1,218,829.39</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	262,701.11					262,701.11
Public Safety	59,401.40				7,927.67	67,329.07
Streets and Public Works	13,077.86				125,153.34	138,231.20
Urban and Economic Development		31,433.96				31,433.96
Culture and Recreation	144,332.71				48,994.01	193,326.72
Conservation of Natural Resources	3,471.10					3,471.10
Other			343,070.62		14,436.36	357,506.98
Capital Outlay	348,000.00		167,912.00			515,912.00
<b>Debt Service:</b>						
Principal	39,626.86			100,000.00		139,626.86
Interest and Service Charges	8,824.63			11,914.00		20,738.63
<b>Total Expenditures</b>	<b>879,435.67</b>	<b>31,433.96</b>	<b>510,982.62</b>	<b>111,914.00</b>	<b>196,511.38</b>	<b>1,730,277.63</b>
Excess (Deficiency) of Revenue Over Expenditures	(403,487.36)	15,797.88	(151,678.34)	(4,651.98)	32,571.56	(511,448.24)
<b>Other Financing Sources (Uses):</b>						
Transfers In					89,272.17	89,272.17
Transfers Out	(89,272.17)					(89,272.17)
Revenue Bonds Issued	239,168.00					239,168.00
<b>Total Other Financing Sources (Uses)</b>	<b>149,895.83</b>				<b>89,272.17</b>	<b>239,168.00</b>
<b>Net Changes in Fund Balances</b>	<b>(253,591.53)</b>	<b>15,797.88</b>	<b>(151,678.34)</b>	<b>(4,651.98)</b>	<b>121,843.73</b>	<b>(272,280.24)</b>
Fund Balance - January 1	1,271,427.97	255,518.20	108,329.85	253,192.34	331,278.08	2,219,746.44
Fund Balance - December 31	1,017,836.44	271,316.08	(43,348.49)	248,540.36	453,121.81	1,947,466.20

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

CITY OF MOHALL  
Mohall, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Funds (272,280.24)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Current Year Capital Outlay	515,912.00	
Current Year Depreciation Expense	<u>(132,429.00)</u>	383,483.00

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

Debt Proceeds	(239,168.00)	
Repayment of Debt	<u>139,626.86</u>	(99,541.14)

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

Net Decrease in Compensated Absences	8,702.82	
Net Increase to Pension Expense	<u>(24,736.00)</u>	<u>(16,033.18)</u>

Change in Net Position of Governmental Activities (4,371.56)

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

CITY OF MOHALL  
Mohall, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Fund
	Water	Sewer	Sanitation		
<b>ASSETS</b>					
<u>Current Assets:</u>					
Cash and Cash Equivalents	89,920.01	118,966.39	115,845.09	104,901.80	429,633.29
<u>Noncurrent Assets:</u>					
Capital Assets (net of accumulated depreciation):					
Land		15,910.00	18,550.00		34,460.00
Buildings and Infrastructure	115,362.00	302,675.00			418,037.00
Vehicles and Machinery				21,300.00	21,300.00
Total Noncurrent Assets	115,362.00	318,585.00	18,550.00	21,300.00	473,797.00
Total Assets	205,282.01	437,551.39	134,395.09	126,201.80	903,430.29
<b>NET POSITION</b>					
Net Investment in Capital Assets	115,362.00	318,585.00	18,550.00	21,300.00	473,797.00
Restricted for:					
Maintenance and Repairs				104,901.80	104,901.80
Unrestricted	89,920.01	118,966.39	115,845.09		324,731.49
Total Net Position	205,282.01	437,551.39	134,395.09	126,201.80	903,430.29

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



CITY OF MOHALL  
Mohall, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Fund
	Water	Sewer	Sanitation		
<u>Operating Revenues:</u>					
Charges for Sales and Services:					
Water Charges	179,472.84				179,472.84
Sewer Charges		76,422.78			76,422.78
Garbage Charges			152,895.76		152,895.76
Utility Surcharge				15,730.00	15,730.00
Landfill Fees			6,768.21		6,768.21
<b>Total Operating Revenues</b>	<b>179,472.84</b>	<b>76,422.78</b>	<b>159,663.97</b>	<b>15,730.00</b>	<b>431,289.59</b>
<u>Operating Expenses:</u>					
Water	165,876.33				165,876.33
Sewer		44,987.61			44,987.61
Sanitation			222,663.79		222,663.79
Depreciation	7,436.00	69,941.00		4,260.00	81,637.00
<b>Total Operating Expenses</b>	<b>173,312.33</b>	<b>114,928.61</b>	<b>222,663.79</b>	<b>4,260.00</b>	<b>515,164.73</b>
<b>Operating Income (Loss)</b>	<b>6,160.51</b>	<b>(38,505.83)</b>	<b>(62,999.82)</b>	<b>11,470.00</b>	<b>(83,875.14)</b>
<u>Non-Operating Revenues:</u>					
Interest Income	108.69	182.41	216.50	168.66	676.26
Miscellaneous Revenues	6,747.97		3,567.40		10,315.37
<b>Total Non-Operating Revenues</b>	<b>6,856.66</b>	<b>182.41</b>	<b>3,783.90</b>	<b>168.66</b>	<b>10,991.63</b>
<b>Changes in Net Position</b>	<b>13,017.17</b>	<b>(38,323.42)</b>	<b>(59,215.92)</b>	<b>11,638.66</b>	<b>(72,883.51)</b>
<b>Net Position - January 1</b>	<b>192,264.84</b>	<b>475,874.81</b>	<b>193,611.01</b>	<b>114,563.14</b>	<b>976,313.80</b>
<b>Net Position - December 31</b>	<b>205,282.01</b>	<b>437,551.39</b>	<b>134,395.09</b>	<b>126,201.80</b>	<b>903,430.29</b>

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

CITY OF MOHALL  
Mohall, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year ended December 31, 2019

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer	Sanitation		
<u>Cash flows from operating activities:</u>					
Receipts from customers	179,472.84	76,422.78	159,663.97	15,730.00	431,289.59
Payments to employees and suppliers	(165,876.33)	(44,987.61)	(222,663.79)		(433,527.73)
Net cash provided (used) by operating activities	13,596.51	31,435.17	(62,999.82)	15,730.00	(2,238.14)
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	6,747.97		3,567.40		10,315.37
<u>Cash flows from investing activities:</u>					
Interest income	108.69	182.41	216.50	168.66	676.26
Net increase in cash and cash equivalents	20,453.17	31,617.58	(59,215.92)	15,898.66	8,753.49
Cash and cash equivalents, January 1	69,466.84	87,348.81	175,061.01	89,003.14	420,879.80
Cash and cash equivalents, December 31	89,920.01	118,966.39	115,845.09	104,901.80	429,633.29
<u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>					
Operating income (Loss)	6,160.51	(38,505.83)	(62,999.82)	11,470.00	(83,875.14)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	7,436.00	69,941.00		4,260.00	81,637.00
Net cash provided (used) by operating activities	13,596.51	31,435.17	(62,999.82)	15,730.00	(2,238.14)

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

CITY OF MOHALL  
Mohall, North Dakota

Notes to the Financial Statements  
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mohall operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. 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.

Based on these criteria, the following is a brief review of each potential component unit addressed defining the government's reporting entity.

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

**Mohall Housing Authority:** The Mohall Housing Authority's governing board is appointed by the city's governing board. The housing authority has the authority to issue its own debt.

The financial statements of the discretely presented component are presented in the basic financial statements.

B. Basis of Presentation

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



The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The city reports the following major governmental funds:

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

*City Sales Tax.* This fund accounts for the city's sales tax collections which are used for urban and economic development.

*Airport.* This fund accounts for a special tax levy to fund operations of the city's airport.

*2010 Main Street Improvement.* This fund is used to accumulate resources to repay the principal and interest of the Refunding Improvement Bonds, Series 2016.

The city reports the following major enterprise funds:

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

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

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

### C. Measurement Focus and Basis of Accounting

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

#### Measurement Focus

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



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

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

#### Basis of Accounting

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

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

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

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

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

capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	25 to 50 years
Machinery and Vehicles	5 to 15 Years

#### F. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the government-wide statement of net position. Compensation for unused vacation leave up to a maximum of 240 hours and 10% of accumulated sick leave will be granted to city employees upon termination of employment with the city.

#### G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

#### H. Pension

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

#### I. Fund Equity

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

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

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



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

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

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

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

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

- Committed
- Assigned
- Unassigned

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

#### J. Interfund Transactions

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

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

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

#### K. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, share of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2019 the city's carrying amount of deposits was \$2,332,599 and the bank balance was \$2,384,576. Of the bank balance, \$266,253 was covered by Federal Depository Insurance. The remaining balance of \$2,118,323 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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



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

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

**Note 4 ECONOMIC DEVELOPMENT LOANS**

Economic development loans consist of loans to area businesses. The following amounts are outstanding at December 31, 2019:

City Sales Tax Fund

Borrower

Spin City Laundry & Tanning	1,700.00
Tracy's Market	2,000.00
Tuffy's	1,500.00
Heisler Auto	13,700.00
Mohall Country Club	5,000.00
Flower House Garden Center	6,000.00
Savey Designs	500.00
The Beauty Bar by Riley	4,300.00
701 Powersports	5,400.00
Christina's Childcare	4,400.00
	<hr/>
Total	<u>44,500.00</u>

**Note 5 DUE FROM CITY AIRPORT/DUE TO GENERAL FUND**

Due from City Airport/Due to General Fund consists of funds loaned to the city airport for the purchase of land. This amount will be repaid to the city on March, 16, 2020. This loan includes interest of 2%.

**Note 6 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2019:

	Balance January 1	Increases	Decreases	Balance December 31
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	18,000	151,502		169,502
Construction in Progress	894,000	318,000		1,212,000
<b>Total</b>	<b>912,000</b>	<b>469,502</b>		<b>1,381,502</b>
Capital assets being depreciated:				
Buildings and Infrastructure	1,796,722			1,796,722
Machinery and Vehicles	648,599	46,410		695,009
<b>Total</b>	<b>2,445,321</b>	<b>46,410</b>		<b>2,491,731</b>
Less accumulated depreciation for:				
Buildings and Infrastructure	835,252	69,042		904,294
Machinery and Vehicles	396,883	63,387		460,270
<b>Total</b>	<b>1,232,135</b>	<b>132,429</b>		<b>1,364,564</b>
<b>Total capital assets being depreciated, net</b>	<b>1,213,186</b>	<b>(86,019)</b>		<b>1,127,167</b>
<b>Governmental Activities</b>				
Capital Assets, Net	2,125,186	383,483		2,508,669
	Balance January 1	Increases	Decreases	Balance December 31
<b>Business-type Activities:</b>				
Capital assets not being depreciated:				
Land	34,460			34,460
Capital assets being depreciated:				
Buildings and Infrastructure	1,710,747			1,710,747
Machinery and Vehicles	81,390			81,390
<b>Total</b>	<b>1,792,137</b>			<b>1,792,137</b>

Less accumulated depreciation for:

Buildings and Infrastructure	1,215,333	77,377	1,292,710
Machinery and Vehicles	55,830	4,260	60,090
Total	1,271,163	81,637	1,352,800
Total capital assets being depreciated, net	520,974	(81,637)	439,337

Business-Type Activities

Capital Assets, Net	555,434	(81,637)	473,797
---------------------	---------	----------	---------

Balance January 1	Increases	Decreases	Balance December 31
----------------------	-----------	-----------	------------------------

**Discretely Presented Component Unit:**

Capital assets being depreciated:

Buildings and Infrastructure	1,040,000		1,040,000
------------------------------	-----------	--	-----------

Less accumulated depreciation for:

Buildings and Infrastructure	119,202	13,867	133,069
------------------------------	---------	--------	---------

Discretely Presented Component Unit

Capital Assets, Net	920,798	(13,867)	906,931
---------------------	---------	----------	---------

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

Governmental Activities:

Streets and Public Works	110,584
Other	21,845
Total	132,429

Business-type Activities:

Water	7,436
Sewer	69,941
Water Sewer Surcharge	4,260
Total	81,637



Note 7 CAPITAL LEASES PAYABLE

The city has entered into the following lease agreements:

\$61,800.00 lease-purchase of a John Deere 5115M Utility Tractor due in a final installment of \$33,741.00 on March 15, 2020; payments include interest at 5.15%.	32,096.02
\$15,865.00 lease-purchase of a John Deere HX15 Rotary Cutter, due in a final installment of \$5,826.00 through May 12, 2020; payments include interest at 5%.	<u>5,547.87</u>
	<u>37,643.89</u>

These lease agreements qualify as capital leases for accounting purposes (title transfers at the end of the lease term). The following is a schedule of the future minimum lease payments under these capital leases, and the net present value of the minimum lease payments at December 31, 2019:

<u>Year Ending December 31</u>	<u>Governmental Activities Lease Payments</u>
2020	39,567.00
Less: amount representing interest	<u>(1,923.11)</u>
Present value of future minimum lease payments	<u>37,643.89</u>

Note 8 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2019, the following changes occurred in the liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Capital Leases	52,271		14,627	37,644	37,644
Special Assessment Bonds	740,000		100,000	640,000	100,000
Revenue Bonds	296,829	239,168	25,000	510,997	25,000
Compensated Absences *	23,293		8,703	14,590	
Total	<u>1,112,393</u>	<u>239,168</u>	<u>148,330</u>	<u>1,203,231</u>	<u>162,644</u>

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

Discretely Presented Component Unit

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	894,337	-	22,124	872,213	22,828

Outstanding debt at December 31, 2019 consists of the following:

Governmental Activities:

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the refinancing of the Refunding Improvement Bond of 2010. Special assessment bonds outstanding at December 31, 2019 are as follows:

\$935,000 Refunding Improvement Bonds, Series 2016 due in annual installments of \$100,000 to \$110,000 through May 1, 2025; interest is at 1.2% to 1.95%.	<u>640,000.00</u>
--	-------------------

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	100,000.00	9,680.00
2021	105,000.00	8,345.00
2022	110,000.00	6,757.50
2023	110,000.00	4,970.00
2024	105,000.00	3,090.00
2025	110,000.00	1,072.50
Total	<u>640,000.00</u>	<u>33,915.00</u>

Revenue Bonds. The city has issued bonds for the purpose of construction of a water tower. Revenue bonds outstanding at December 31, 2019 are as follows:

The city has received funding as part of the Drinking Water State Revolving Fund program, from the North Dakota Public Finance Authority. The city is in the process of constructing a new water tower and issued the Sales Tax Revenue Bonds, Series 2018, in the amount of \$610,000. As of December 31, 2019, the city had

requested drawdowns of \$560,997 and has repaid principal of \$50,000. The project was not completed as of December 31, 2019 and a final debt service repayment schedule is not available since the city had not yet received the full amount of the drawdowns under this agreement. The outstanding balance at December 31, 2019 was \$510,997. The city has \$49,003 still available as of December 31, 2019.

Discretely Presented Component Unit:

Revenue Bonds. The housing authority has issued bonds for the purpose of providing affordable housing in the city. Revenue bonds outstanding at December 31, 2019 are as follows:

\$540,000 Multifamily Housing Revenue Bonds, Series 2008 due in monthly installments of \$2,412.84 through 2043; payments include interest at 4%.	438,375.00
\$500,000 Multifamily Housing Revenue Bonds, Series 2012 due in montly installments of \$1,737.00 through 2048; payments include interest at 2.25%.	433,838.00
	<u>872,213.00</u>

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	22,828.00	26,972.00
2021	23,556.00	26,244.00
2022	24,310.00	25,490.00
2023	25,089.00	24,711.00
2024	25,895.00	23,905.00
2025-2029	142,585.00	106,414.00
2030-2034	167,399.00	81,599.00
2035-2039	196,903.00	52,096.00
2040-2044	181,270.00	18,344.00
2045-2048	62,378.00	2,265.00
Total	<u>872,213.00</u>	<u>388,040.00</u>

Note 9 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2019:



<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Capital Improvements	22,161.00	
General Fund		22,161.00
To transfer share of city sales tax to create debt service fund.		
Highway Distribution	50,929.94	
Library	16,181.23	
General Fund		67,111.17
To subsidize expenditures.		
Airport	151,500.00	
General Fund		151,500.00
To provide funding for the purchase of land.		

Note 10 DEFICIT FUND BALANCE

The following fund had a deficit balance as of December 31, 2019:

<u>Special Revenue Fund</u>	
Airport	(43,348.49)

The city plans to eliminate this deficit with future revenue collections and/or transfers from other funds.

Note 11 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$3,000,000 per occurrence for general liability and automobile; and \$941,429 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$1,200,371 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

## Note 12 PENSION PLAN

### North Dakota Public Employees Retirement System (Main System)

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

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

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

#### **Pension Benefits**

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

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

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

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



member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

### **Refunds of Member Account Balance**

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

### **Member and Employer Contributions**

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

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

- 1 to 12 months of service -  
Greater of one percent of monthly salary or \$25
  
- 13 to 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, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2019, the City of Mohall reported a liability of \$248,332 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used



to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018 the city's proportion was .014772 percent, which was an increase of .000524 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2019, the city recognized pension expense of \$37,833. At December 31, 2019 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	657	8,449
Changes in assumptions	89,643	3,544
Net difference between projected and actual earnings on pension plan investments	5,902	1,208
Changes in proportion and differences between employer contributions and proportionate share of contributions		10,227
City contributions subsequent to the measurement date (see below)	12,637	
Total	<u>108,839</u>	<u>23,428</u>

\$12,637 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020.

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

Year ended June 30:	
2019	22,425
2020	19,180
2021	18,697
2022	11,466
2023	1,006
Thereafter	0

**Actuarial assumption.** The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		3.50%
Salary increases	Service at	
	Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age *	
	Under 30	10.00%
	30 - 39	7.50%
	40 - 49	6.75%
	50 - 59	6.50%
60+	5.25%	

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

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

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2018 funding actuarial valuation for NDPERS. As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2018. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment and inflation) are developed for each major asset class. These ranges are combined to produce in 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>	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.05%
International Equity	21%	6.71%
Private Equity	7%	10.20%
Domestic Fixed Income	23%	1.45%
International Equity Income	0%	0.00%
Global Real Assets	19%	5.11%
Cash Equivalents	0%	0.00%

**Discount rate.** For PERS, GASB No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee 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.

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 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

**Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate.** The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 6.32%, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

	1% Decrease (5.32%)	Current Rate (6.32%)	1% Increase (7.32%)
The city's proportionate share of the net pension liability	337,437	248,332	173,977

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



CITY OF MOHALL  
Mohall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	231,827.00	231,827.00	215,054.72	(16,772.28)
Licenses, Permits and Fees	14,300.00	14,300.00	14,023.37	(276.63)
Intergovernmental	162,000.00	162,000.00	186,838.77	24,838.77
Charges for Services			4,402.50	4,402.50
Fines and Forfeits	1,000.00	1,000.00	390.00	(610.00)
Miscellaneous	16,975.00	16,975.00	55,238.95	38,263.95
<b>Total Revenues</b>	<b>426,102.00</b>	<b>426,102.00</b>	<b>475,948.31</b>	<b>49,846.31</b>
<u>Expenditures:</u>				
Current:				
General Government	276,350.00	276,350.00	262,701.11	13,648.89
Public Safety	61,702.00	61,702.00	59,401.40	2,300.60
Streets and Public Works			13,077.86	(13,077.86)
Culture and Recreation	25,900.00	25,900.00	144,332.71	(118,432.71)
Conservation of Natural Resources			3,471.10	(3,471.10)
Capital Outlay			348,000.00	(348,000.00)
Debt Service:				
Principal	27,150.00	27,150.00	39,626.86	(12,476.86)
Interest and Service Charges			8,824.63	(8,824.63)
<b>Total Expenditures</b>	<b>391,102.00</b>	<b>391,102.00</b>	<b>879,435.67</b>	<b>(488,333.67)</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>35,000.00</b>	<b>35,000.00</b>	<b>(403,487.36)</b>	<b>(438,487.36)</b>
<u>Other Financing Sources (Uses):</u>				
Transfers Out	(150,000.00)	(150,000.00)	(89,272.17)	60,727.83
Revenue Bonds Issued			239,168.00	239,168.00
<b>Total Other Financing Sources (Uses)</b>	<b>(150,000.00)</b>	<b>(150,000.00)</b>	<b>149,895.83</b>	<b>299,895.83</b>
<b>Net Change in Fund Balances</b>	<b>(115,000.00)</b>	<b>(115,000.00)</b>	<b>(253,591.53)</b>	<b>(138,591.53)</b>
<b>Fund Balance - January 1</b>	<b>1,271,427.97</b>	<b>1,271,427.97</b>	<b>1,271,427.97</b>	
<b>Fund Balance - December 31</b>	<b>1,156,427.97</b>	<b>1,156,427.97</b>	<b>1,017,836.44</b>	<b>(138,591.53)</b>

CITY OF MOHALL  
Mohall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Airport Fund  
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	8,989.00	8,989.00	94,932.09	85,943.09
Intergovernmental			231,038.50	231,038.50
Charges for Services	26,000.00	26,000.00	30,532.61	4,532.61
Miscellaneous	3,075.00	3,075.00	2,801.08	(273.92)
<b>Total Revenues</b>	<b>38,064.00</b>	<b>38,064.00</b>	<b>359,304.28</b>	<b>321,240.28</b>
<u>Expenditures:</u>				
Current:				
Other	54,800.00	54,800.00	343,070.62	(288,270.62)
Capital Outlay	140,000.00	140,000.00	167,912.00	(27,912.00)
<b>Total Expenditures</b>	<b>194,800.00</b>	<b>194,800.00</b>	<b>510,982.62</b>	<b>(316,182.62)</b>
<b>Net Change in Fund Balances</b>	<b>(156,736.00)</b>	<b>(156,736.00)</b>	<b>(151,678.34)</b>	<b>637,422.90</b>
<b>Fund Balance - January 1</b>	<b>108,329.85</b>	<b>108,329.85</b>	<b>108,329.85</b>	
<b>Fund Balance - December 31</b>	<b>(48,406.15)</b>	<b>(48,406.15)</b>	<b>(43,348.49)</b>	<b>637,422.90</b>

CITY OF MOHALL  
Mohall, North Dakota.

Notes to the Budgetary Comparison Schedules  
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the city's budget during the year ended December 31, 2019.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the year ended December 31, 2019:

General fund	488,333.67
<u>Special Revenue Funds</u>	
* City Sales Tax	53,933.96
Airport	316,182.62
* Highway Distribution	121,153.34
* SB2103 Surge Money	9,680.00
* City Share of Special Assessments	3,191.05
Cemetery	145.31
Library	8,314.01
<u>Debt Service fund</u>	
* 2010 Main Street Imp.	111,914.00

\* A budget was not prepared for this fund.

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



CITY OF MOHALL  
Mohall, North Dakota

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

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.014772%	0.014248%	0.013820%	0.014892%	0.017443%
City's proportionate share of the net pension liability	248,332	229,012	134,689	101,263	110,714
City's covered employee payroll	151,162	145,440	139,268	137,583	146,936
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.28%	157.46%	96.71%	73.60%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	62.80%	61.98%	70.46%	77.15%	77.70%

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

	2019	2018	2017	2016	2015
Statutorily required contribution	10,763	10,355	9,916	9,796	9,747
Contributions in relation to the statutorily required contributions	(10,763)	(10,355)	(9,916)	(9,796)	(9,747)
Contribution deficiency (excess)	0	0	0	0	0
City's covered-employee payroll	151,162	145,440	139,268	137,583	146,936
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	6.63%

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

- For changes of assumptions, see Note 12 to the financial statements.

CITY OF MOHALL  
Mohall, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2019

	Balance 1/1/2019	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12/31/2019
<b>Major Governmental Funds</b>						
General Fund	1,271,427.97	715,116.31		240,772.17	879,435.67	866,336.44
City Sales Tax Fund	210,568.20	70,181.84			53,933.96	226,816.08
Airport	108,329.85	359,304.28	151,500.00		510,982.62	108,151.51
2010 Main Street Improvement	253,192.34	107,262.02			111,914.00	248,540.36
<b>Total Major Governmental Funds</b>	<b>1,843,518.36</b>	<b>1,251,864.45</b>	<b>151,500</b>	<b>240,772.17</b>	<b>1,556,266.25</b>	<b>1,449,844.39</b>
<b>Non-major Governmental Funds</b>						
Highway Distribution		70,223.40	50,929.94		121,153.34	
Fire Department	92.90	7,928.88			7,927.67	94.11
SB2103 Surge Money	56,369.13	91.23			9,680.00	46,780.36
City Share of Special Assmt.	79,891.28	139.37			3,191.05	76,839.60
Special Assessment Deficiency	47,177.57	82.44				47,260.01
Emergency	4,362.20	5,240.70			4,000.00	5,602.90
Cemetery	(19.65)	11,698.81			11,245.31	433.85
Library		23,132.78	16,181.23		39,314.01	
Planning Commission	3484.23	50.00				3,534.23
Infrastructure	92,089.60	31,674.58				123,764.18
CDBG Funds	41.32					41.32
Capital Improvements		78,820.75	22,161.00			100,981.75
Street Improvement 2004	47,789.50					47,789.50
<b>Total Nonmajor Governmental Funds</b>	<b>331,278.08</b>	<b>229,082.94</b>	<b>89,272.17</b>		<b>196,511.38</b>	<b>453,121.81</b>
<b>Total Governmental Funds</b>	<b>2,174,796.44</b>	<b>1,480,947.39</b>	<b>240,772.17</b>	<b>240,772.17</b>	<b>1,752,777.63</b>	<b>1,902,966.20</b>
<b>Major Enterprise Funds</b>						
Water	69,466.84	186,329.50			165,876.33	89,920.01
Sewer	87,348.81	76,605.19			44,987.61	118,966.39
Sanitation	175,061.01	163,447.87			222,663.79	115,845.09
<b>Total Major Enterprise Funds</b>	<b>331,876.66</b>	<b>426,382.56</b>			<b>433,527.73</b>	<b>324,731.49</b>
<b>Nonmajor Enterprise Fund</b>						
Water Sewer Surcharge	89,003.14	15,898.66				104,901.80
<b>Total Enterprise Funds</b>	<b>420,879.80</b>	<b>442,281.22</b>			<b>433,527.73</b>	<b>429,633.29</b>
<b>Total Primary Government</b>	<b>2,595,676.24</b>	<b>1,923,228.61</b>	<b>240,772.17</b>	<b>240,772.17</b>	<b>2,186,305.36</b>	<b>2,332,599.49</b>
<b>Discretely Presented Component Unit</b>						
Mohall Housing Authority	77,529.33	64,948.43			61,320.56	81,157.20
<b>Total All Funds</b>	<b>2,673,205.57</b>	<b>1,988,177.04</b>	<b>240,772.17</b>	<b>240,772.17</b>	<b>2,247,625.92</b>	<b>2,413,756.69</b>

# Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA  
Ken Mehrer, CPA  
Bryce Fischer, CPA

425 North Fifth Street  
Bismarck, ND 58501  
Phone 701-258-4560  
Fax 701-258-4983

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Mohall  
Mohall, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated January 31, 2020.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002, that we consider to be significant deficiencies.



### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

January 31, 2020

CITY OF MOHALL  
Mohall, North Dakota

Schedule of Findings and Responses  
For the Year Ended December 31, 2019

**SECTION I – SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported
- Noncompliance material to financial statements noted?  Yes  No

**SECTION II – FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. 2019-001 – Segregation of Duties

*Criteria:* To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

*Condition:* The city has one person responsible for most accounting functions. The employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare bank reconciliations.

*Cause:* The city does not have a large enough staff to properly segregate all duties.

*Effect:* A lack of segregation of duties leads to a limited degree of internal control.

*Recommendation:* We recommend that management and the governing board be aware of the lack of segregation of duties and implement controls whenever possible to mitigate this risk.

*Views of Responsible Officials:* The city is aware of the condition and segregates duties whenever possible.

2. 2019-002- Financial Statement Preparation

*Criteria:* A good system of internal controls requires the city to determine that the financial statements are prepared based on accounting principles generally accepted in the United States of America. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

*Condition:* The city's financial statements, including the accompanying note disclosures, are prepared by the city's external auditors.

*Cause:* The city feels that it is more cost effective to have their internal auditors prepare the complete financial statements and disclosures, rather than invest in ongoing specialized training that would be necessary.

*Effect:* Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

*Recommendation:* We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures; and will review and approve them prior to external distribution.

*Views of Responsible officials:* The city will continue to have the external auditors prepare the financial statements, including note disclosures, but will review and approve them prior to external distribution.



# Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA  
Ken Mehrer, CPA  
Bryce Fischer, CPA

425 North Fifth Street  
Bismarck, ND 58501  
Phone 701-258-4560  
Fax 701-258-4983

Governing Board  
City of Mohall  
Mohall, North Dakota

Our audit of the financial records of the City of Mohall, Mohall, North Dakota, for the year ended December 31, 2019 has disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

\*\*\*\*\*

## BUDGETS

Budgets were not prepared for all special revenue and debt service funds of the city. NDCC #40-40-05 requires the preparation of a separate schedule for each special revenue fund and each debt service fund of the city. We recommend that the city comply with this section and prepare a separate schedule "C" for each special revenue fund, including those which do not have a mill levy, and a separate schedule "D" for each debt service fund when preparing future annual budgets.

\*\*\*\*\*

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audit.



Rath and Mehrer, P.C.

January 31, 2020