

AUDIT REPORT

CITY OF NEW SALEM
New Salem, North Dakota

For the Years Ended December 31, 2019 and 2018

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF NEW SALEM
New Salem, North Dakota

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CITY OF NEW SALEM
New Salem, North Dakota

CITY OFFICIALS

Lynette Fitterer	Mayor
Josh Gaebe	Council Member
Chad Goetzfridt	Council Member
Perrin Goetzfridt	Council Member
Darrell Itrich	Council Member
Delton Kautzman	Council Member
Eugene Schaff	Council Member
Melissa Davis	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New Salem
New Salem, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of New Salem, New Salem, North Dakota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, each major fund and the aggregate remaining fund information of the City of New salem, New salem, North Dakota, as of December 31, 2019 and 2018, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

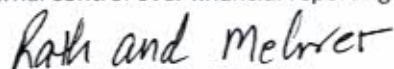
Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 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

June 19, 2020

CITY OF NEW SALEM
New Salem, North Dakota

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	859,058.01	669,735.41	1,528,793.42
Capital Assets (net of accumulated depreciation):			
Construction in Progress		3,934,710.00	3,934,710.00
Buildings and Infrastructure	60,000.00	857,375.00	917,375.00
Vehicles and Machinery	184,433.00		184,433.00
Total Capital Assets	244,433.00	4,792,085.00	5,036,518.00
Total Assets	1,103,491.01	5,461,820.41	6,565,311.42
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	99,552.00		99,552.00
Liabilities:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable		103,797.26	103,797.26
Due After One Year:			
Revenue Bonds Payable		3,428,288.39	3,428,288.39
Net Pension Liability	200,420.00		200,420.00
Total Liabilities	200,420.00	3,532,085.65	3,732,505.65
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	13,716.00		13,716.00
NET POSITION:			
Net Investment in Capital Assets	244,433.00	1,259,999.35	1,504,432.35
Restricted for:			
Special Purposes	497,561.72		497,561.72
Water and Sewer Construction		140.53	140.53
Project Reserves		251,629.15	251,629.15
USDA Reserves		52,997.28	52,997.28
Unrestricted	246,912.29	364,968.45	611,880.74
Total Net Position	988,907.01	1,929,734.76	2,918,641.77

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	817,418.97	230,723.01	1,048,141.98
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	64,200.00	886,850.00	951,050.00
Vehicles and Machinery	143,622.00		143,622.00
Total Capital Assets	207,822.00	886,850.00	1,094,672.00
Total Assets	1,025,240.97	1,117,573.01	2,142,813.98
DEFERRED OUTFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	112,449.00		112,449.00
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Revenue Bonds Payable		25,000.00	25,000.00
Due After One Year:			
Revenue Bonds Payable		680,000.00	680,000.00
Net Pension Liability	190,276.00		190,276.00
Total Liabilities	190,276.00	705,000.00	895,276.00
DEFERRED INFLOWS OF RESOURCES:			
Changes in Resources Related to Pensions	9,351.00		9,351.00
NET POSITION:			
Net Investment in Capital Assets	207,822.00	181,850.00	389,672.00
Restricted for:			
Special Purposes	497,500.46		497,500.46
Water and Sewer Construction		100.00	100.00
USDA Reserves		52,722.78	52,722.78
Unrestricted	232,740.51	177,900.23	410,640.74
Total Net Position	938,062.97	412,573.01	1,350,635.98

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2019

	Net (Expense) Revenue and Change in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
					Total
Functions/Programs					
Primary Government					
<u>Governmental Activities:</u>					
General Government	203,536.74	13,153.66		(190,383.08)	(190,383.08)
Public Safety	42,397.98	68.00		(42,329.98)	(42,329.98)
Streets and Public Works	200,460.73	78,044.48	74,681.99	(47,734.26)	(47,734.26)
Culture and Recreation	8,350.30			(8,350.30)	(8,350.30)
Total Governmental Activities	454,745.75	91,266.14	74,681.99	(288,797.62)	(288,797.62)
<u>Business-Type Activities:</u>					
Water	329,321.16	351,253.90	1,129,637.63		1,151,570.37
Sewer	143,498.36	107,050.50	1,149.29		(35,298.57)
Total Business-Type Activities	472,819.52	458,304.40	1,130,786.92		1,116,271.80
Total Primary Government	927,565.27	549,570.54	1,205,468.91	(288,797.62)	827,474.18
<u>General Revenues:</u>					
<u>Taxes:</u>					
Property taxes; levied for general purposes				144,198.74	144,198.74
Property taxes; levied for special purposes				4,006.86	4,006.86
City sales taxes				193,937.48	193,937.48
Cigarette taxes				2,490.73	2,490.73
Telecommunication tax				3,366.35	3,366.35
Homestead tax credit				9,705.65	
Disabled veterans tax credit				1,166.07	
Intergovernmental revenue not restricted to specific programs				79,799.49	79,799.49
Earnings on investments and other revenue				175,877.54	125,982.70
Transfers				(274,907.25)	274,907.25
Total General Revenues and Transfers				339,641.66	400,889.95
Change in Net Position				50,844.04	1,517,161.75
Net Position - January 1				938,062.97	412,573.01
Net Position - December 31				988,907.01	1,929,734.76

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2018

				Net (Expense) Revenue and Change in Net Position		
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Primary Government						
<u>Governmental Activities:</u>						
General Government	198,930.06	19,308.90		(179,621.16)		(179,621.16)
Public Safety	42,139.26	180.00		(41,959.26)		(41,959.26)
Streets and Public Works	366,682.94	79,355.52	73,030.45	(214,296.97)		(214,296.97)
Culture and Recreation	11,442.01			(11,442.01)		(11,442.01)
Total Governmental Activities	619,194.27	98,844.42	73,030.45	(447,319.40)		(447,319.40)
<u>Business-Type Activities:</u>						
Water	289,837.63	264,577.67			(25,259.96)	(25,259.96)
Sewer	114,251.64	102,558.74			(11,692.90)	(11,692.90)
Total Business-Type Activities	404,089.27	367,136.41	-		(36,952.86)	(36,952.86)
Total Primary Government	1,023,283.54	465,980.83	73,030.45	(447,319.40)	(36,952.86)	(484,272.26)
<u>General Revenues:</u>						
<u>Taxes:</u>						
Property taxes; levied for general purposes				119,752.67		119,752.67
Property taxes; levied for special purposes				768.30		768.30
City sales taxes				92,678.17		92,678.17
Cigarette taxes				2,630.14		2,630.14
Telecommunication tax				3,366.35		3,366.35
Homestead tax credit				7,962.20		7,962.20
Disabled veterans tax credit				1,339.62		1,339.62
Intergovernmental revenue not restricted to specific programs				69,187.56		69,187.56
Earnings on investments and other revenue				21,991.46	125.88	22,117.34
Transfers				(24,943.75)	24,943.75	-
Total General Revenues and Transfers				294,732.72	25,069.63	319,802.35
Change in Net Position				(152,586.68)	(11,883.23)	(164,469.91)
Net Position - January 1				1,090,649.65	424,456.24	1,515,105.89
Net Position - December 31				938,062.97	412,573.01	1,350,635.98

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Funds				Other	Total
	General	Sales Tax	Highway Distribution	Auditorium Set-Aside	Governmental Funds	Governmental Funds
ASSETS:						
Cash, Cash Equivalents and Investments	353,041.88	250,460.07	235,198.91	16.97	20,340.18	859,058.01
FUND BALANCES:						
Restricted for:						
Street and Public Works			235,198.91			235,198.91
City Betterment and Improvement		250,460.07				250,460.07
Emergency					11,902.74	11,902.74
Assigned to:						
Auditorium				16.97		16.97
Equipment Purchases					8,437.44	8,437.44
Unassigned	353,041.88					353,041.88
Total Fund Balances	353,041.88	250,460.07	235,198.91	16.97	20,340.18	859,058.01

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Funds				Other	Total
	General	Sales Tax	Highway Distribution	Auditorium Set-Aside	Governmental Funds	Governmental Funds
ASSETS:						
Cash, Cash Equivalents and Investments	311,504.91	256,406.58	234,528.62	3.39	14,975.47	817,418.97
FUND BALANCES:						
Restricted for:						
Street and Public Works			234,528.62			234,528.62
City Betterment and Improvement		256,406.58				256,406.58
Emergency					6,565.26	6,565.26
Assigned to:						
Auditorium				3.39		3.39
Equipment Purchases					8,410.21	8,410.21
Unassigned	311,504.91					311,504.91
Total Fund Balances	311,504.91	256,406.58	234,528.62	3.39	14,975.47	817,418.97

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

CITY OF NEW SALEM
New Salem, 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	859,058.01
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	711,272.00	
Less Accumulated Depreciation	<u>(466,839.00)</u>	
Net Capital Assets		244,433.00

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	99,552.00	
Total Deferred Inflows of Resources	<u>(13,716.00)</u>	
Net Deferred Outflows/Inflows of Resources		85,836.00

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:

Net Pension Liability	<u>(200,420.00)</u>
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Total Net Position of Governmental Activities	<u><u>988,907.01</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW SALEM
New Salem, North Dakota

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

Total Fund Balances for Governmental Funds	817,418.97
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	667,611.00	
Less Accumulated Depreciation	<u>(459,789.00)</u>	
Net Capital Assets		207,822.00

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	112,449.00	
Total Deferred Inflows of Resources	<u>(9,351.00)</u>	
Net Deferred Outflows/Inflows of Resources		103,098.00

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, 2018 are:

Net Pension Liability		<u>(190,276.00)</u>
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Total Net Position of Governmental Activities	<u><u>938,062.97</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW SALEM
New Salem, 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				Other	Total
	General	Sales Tax	Highway Distribution	Auditorium Set-Aside	Governmental Funds	Governmental Funds
<u>Revenues:</u>						
Taxes	144,198.74	193,937.48			4,006.86	342,143.08
Licenses, Permits and Fees	13,153.66					13,153.66
Intergovernmental	95,224.90		74,681.99		1,303.39	171,210.28
Charges for Services	24,861.56		53,182.92			78,044.48
Fines and Forfeits	68.00					68.00
Miscellaneous	17,883.08	157,855.90	70.52	13.58	54.46	175,877.54
Total Revenues	295,389.94	351,793.38	127,935.43	13.58	5,364.71	780,497.04
<u>Expenditures:</u>						
Current:						
General Government	171,930.74					171,930.74
Public Safety	42,397.98					42,397.98
Streets and Public Works	31,172.95	26,672.64	127,265.14			185,110.73
Culture and Recreation	8,350.30					8,350.30
Capital Outlay		56,161.00				56,161.00
Total Expenditures	253,851.97	82,833.64	127,265.14	-	-	463,950.75
Excess (Deficiency) of Revenue Over Expenditures	41,537.97	268,959.74	670.29	13.58	5,364.71	316,546.29
<u>Other Financing (Uses):</u>						
Transfers Out	(1.00)	(274,906.25)				(274,907.25)
Net Change in Fund Balances	41,536.97	(5,946.51)	670.29	13.58	5,364.71	41,639.04
Fund Balance - January 1	311,504.91	256,406.58	234,528.62	3.39	14,975.47	817,418.97
Fund Balance - December 31	353,041.88	250,460.07	235,198.91	16.97	20,340.18	859,058.01

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Funds				Other	Total
	General	Sales Tax	Highway Distribution	Auditorium Set-Aside	Governmental Funds	Governmental Funds
<u>Revenues:</u>						
Taxes	119,752.67	92,678.17			768.30	213,199.14
Licenses, Permits and Fees	19,308.90					19,308.90
Intergovernmental	83,355.81		73,030.45		1,130.06	157,516.32
Charges for Services	28,163.13		51,192.39			79,355.52
Fines and Forfeits	180.00					180.00
Miscellaneous	14,969.41	29.98	6,455.49	507.30	29.28	21,991.46
Total Revenues	265,729.92	92,708.15	130,678.33	507.30	1,927.64	491,551.34
<u>Expenditures:</u>						
Current:						
General Government	169,004.06					169,004.06
Public Safety	42,139.26					42,139.26
Streets and Public Works	25,759.66	148,042.43	109,998.31	70,976.54		354,776.94
Culture and Recreation	11,442.01					11,442.01
Total Expenditures	248,344.99	148,042.43	109,998.31	70,976.54	-	577,362.27
Excess (Deficiency) of Revenue Over Expenditures	17,384.93	(55,334.28)	20,680.02	(70,469.24)	1,927.64	(85,810.93)
<u>Other Financing Sources (Uses):</u>						
Transfers In				1,643.91		1,643.91
Transfers Out	(1,743.91)	(24,843.75)				(26,587.66)
Total Other Financing Sources (Uses)	(1,743.91)	(24,843.75)	-	1,643.91	-	(24,943.75)
Net Change in Fund Balances	15,641.02	(80,178.03)	20,680.02	(68,825.33)	1,927.64	(110,754.68)
Fund Balance - January 1	295,863.89	336,584.61	213,848.60	68,828.72	13,047.83	928,173.65
Fund Balance - December 31	311,504.91	256,406.58	234,528.62	3.39	14,975.47	817,418.97

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

CITY OF NEW SALEM
New Salem, 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	41,639.04
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The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital 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	56,161.00	
Current Year Depreciation Expense	<u>(19,550.00)</u>	36,611.00

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

Net Increase to Pension Expense	<u>(27,406.00)</u>
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Change in Net Position of Governmental Activities	<u><u>50,844.04</u></u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

CITY OF NEW SALEM
New Salem, North Dakota

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

Net Change in Fund Balances - Total Governmental Funds	(110,754.68)
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	-	
Current Year Depreciation Expense	<u>(16,106.00)</u>	(16,106.00)

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

Net Increase to Pension Expense	<u>(25,726.00)</u>
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Change in Net Position of Governmental Activities	<u><u>(152,586.68)</u></u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

CITY OF NEW SALEM
New Salem, North Dakota

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

	<u>Major Enterprise Funds</u>		<u>Total Enterprise Funds</u>
	<u>Water</u>	<u>Sewer</u>	
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents	569,068.74	100,666.67	669,735.41
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depreciation):			
Construction in Progress	3,934,710.00		3,934,710.00
Buildings and Infrastructure		857,375.00	857,375.00
Total Capital Assets	3,934,710.00	857,375.00	4,792,085.00
Total Assets	4,503,778.74	958,041.67	5,461,820.41
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Revenue Bonds Payable	78,797.26	25,000.00	103,797.26
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable	2,773,288.39	655,000.00	3,428,288.39
Total Liabilities	2,852,085.65	680,000.00	3,532,085.65
<u>NET POSITION</u>			
Net Investment in Capital Assets	1,082,624.35	177,375.00	1,259,999.35
Restricted for:			
Water and Sewer Construction	140.53		140.53
Project Reserves	251,629.15		251,629.15
USDA Reserves		52,997.28	52,997.28
Unrestricted	317,299.06	47,669.39	364,968.45
Total Net Position	1,651,693.09	278,041.67	1,929,734.76

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	<u>Major Enterprise Funds</u>		<u>Total Enterprise Funds</u>
	<u>Water</u>	<u>Sewer</u>	
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and Cash Equivalents	127,924.64	102,798.37	230,723.01
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure		886,850.00	886,850.00
Total Assets	127,924.64	989,648.37	1,117,573.01
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Revenue Bonds Payable		25,000.00	25,000.00
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable		680,000.00	680,000.00
Total Liabilities	-	705,000.00	705,000.00
<u>NET POSITION</u>			
Net Investment in Capital Assets		181,850.00	181,850.00
Restricted for:			
Water and Sewer Construction	100.00		100.00
USDA Reserves		52,722.78	52,722.78
Unrestricted	127,824.64	50,075.59	177,900.23
Total Net Position	127,924.64	284,648.37	412,573.01

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

CITY OF NEW SALEM
New Salem, 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		Total Enterprise Funds
	Water	Sewer	
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Charges	256,939.60		256,939.60
Sewer Charges		15,922.67	15,922.67
Surcharges	94,314.30	91,127.83	185,442.13
Total Operating Revenues	351,253.90	107,050.50	458,304.40
<u>Operating Expenses:</u>			
Salaries and Benefits	40,571.23	42,370.74	82,941.97
Group Insurance	1,800.00		1,800.00
Professional Fees	26,089.91		26,089.91
Utilities	1,467.83	6,796.42	8,264.25
Printing and Postage	1,532.91	1,532.90	3,065.81
Gas and Oil	22.49		22.49
Maintenance and Repairs	5,635.60	36,453.72	42,089.32
Lab Services	460.62	636.67	1,097.29
Water Purchases	188,147.08		188,147.08
Miscellaneous	16,446.94	1,420.41	17,867.35
Deposit Refunds	133.27		133.27
Depreciation		29,475.00	29,475.00
Total Operating Expenses	282,307.88	118,685.86	400,993.74
Operating Income (Loss)	68,946.02	(11,635.36)	57,310.66
<u>Non-Operating Revenues (Expenses):</u>			
USDA-RD Grants	829,637.63		829,637.63
Community Development Block Grant	300,000.00		300,000.00
USDA-RD Search Grant		1,149.29	1,149.29
Reimbursements	120,381.53	3,364.34	123,745.87
Interest	1,815.55	421.28	2,236.83
Other Project Costs	(31,393.73)		(31,393.73)
Interest Payments and Service Charges	(15,619.55)	(24,812.50)	(40,432.05)
Total Non-Operating Revenues (Expenses)	1,204,821.43	(19,877.59)	1,184,943.84
Income (Loss) Before Transfers	1,273,767.45	(31,512.95)	1,242,254.50
Transfer In	250,001.00	24,906.25	274,907.25
Changes in Net Position	1,523,768.45	(6,606.70)	1,517,161.75
Net Position - January 1	127,924.64	284,648.37	412,573.01
Net Position - December 31	1,651,693.09	278,041.67	1,929,734.76

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

CITY OF NEW SALEM
New Salem, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2018

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Charges	258,681.07		258,681.07
Sewer Charges		15,678.60	15,678.60
Surcharges	5,096.60	86,730.14	91,826.74
Other Fees	800.00	150.00	950.00
Total Operating Revenues	264,577.67	102,558.74	367,136.41
<u>Operating Expenses:</u>			
Salaries and Benefits	32,636.15	35,035.85	67,672.00
Group Insurance	2,400.00		2,400.00
Audit Fees	1,250.00	1,250.00	2,500.00
Professional Fees	75,525.63	1,745.63	77,271.26
Utilities	1,601.72	8,020.93	9,622.65
Printing and Postage	500.00	500.00	1,000.00
Gas and Oil	388.90	388.90	777.80
Maintenance and Repairs	14,790.44	7,222.96	22,013.40
Lab Services	688.52	880.57	1,569.09
Water Purchases	153,454.46		153,454.46
Miscellaneous	5,597.85	4,669.30	10,267.15
Deposit Refunds	107.96		107.96
Depreciation	896.00	29,475.00	30,371.00
Total Operating Expenses	289,837.63	89,189.14	379,026.77
Operating Income (Loss)	(25,259.96)	13,369.60	(11,890.36)
<u>Non-Operating Revenues (Expenses):</u>			
Interest	62.94	62.94	125.88
Interest Payments and Service Charges		(25,062.50)	(25,062.50)
Total Non-Operating Revenues (Expenses)	62.94	(24,999.56)	(24,936.62)
Income (Loss) Before Transfers	(25,197.02)	(11,629.96)	(36,826.98)
Transfer In	100.00	24,843.75	24,943.75
Changes in Net Position	(25,097.02)	13,213.79	(11,883.23)
Net Position - January 1	153,021.66	271,434.58	424,456.24
Net Position - December 31	127,924.64	284,648.37	412,573.01

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
<u>Cash flows from operating activities:</u>			
Receipts from customers	351,253.90	107,050.50	458,304.40
Payments to suppliers and employees	(282,307.88)	(89,210.86)	(371,518.74)
Net cash provided (used) by operating activities	68,946.02	17,839.64	86,785.66
<u>Cash flows from noncapital financing activities:</u>			
Transfers in	250,001.00	24,906.25	274,907.25
Reimbursements	120,381.53	3,364.34	123,745.87
Net cash provided (used) by noncapital financing activities	370,382.53	28,270.59	398,653.12
<u>Cash flows from capital and related financing activities:</u>			
USDA-RD grants	829,637.63		829,637.63
Community development block grant	300,000.00		300,000.00
USDA-RD search grant		1,149.29	1,149.29
Revenue bonds issued	4,936,085.65		4,936,085.65
Water and sewer improvement project	(3,934,710.00)		(3,934,710.00)
Other project costs	(31,393.73)		(31,393.73)
Principal payments	(2,084,000.00)	(25,000.00)	(2,109,000.00)
Interest and service charges	(15,619.55)	(24,812.50)	(40,432.05)
Net cash provided (used) by capital and related financing activities		(48,663.21)	(48,663.21)
<u>Cash Flows from investing activities:</u>			
Interest income	1,815.55	421.28	2,236.83
Net increase in cash and cash equivalents	441,144.10	(2,131.70)	439,012.40
Cash and cash equivalents, January 1	127,924.64	102,798.37	230,723.01
Cash and cash equivalents, December 31	569,068.74	100,666.67	669,735.41
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>			
Operating income (Loss)	68,946.02	(11,635.36)	57,310.66
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense		29,475.00	29,475.00
Net cash provided (used) by operating activities	68,946.02	17,839.64	86,785.66

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

CITY OF NEW SALEM
New Salem, North Dakota

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

	Major Enterprise Funds		Total Enterprise Funds
	Water	Sewer	
<u>Cash flows from operating activities:</u>			
Receipts from customers	264,577.67	102,558.74	367,136.41
Payments to suppliers and employees	(288,941.63)	(59,714.14)	(348,655.77)
Net cash provided (used) by operating activities	(24,363.96)	42,844.60	18,480.64
<u>Cash flows from noncapital financing activities:</u>			
Transfers in	100.00	24,843.75	24,943.75
<u>Cash flows from capital and related financing activities:</u>			
Principal payments		(25,000.00)	(25,000.00)
Interest and service charges		(25,062.50)	(25,062.50)
Net cash provided (used) by capital and related financing activities	-	(50,062.50)	(50,062.50)
<u>Cash Flows from investing activities:</u>			
Interest income	62.94	62.94	125.88
Net increase in cash and cash equivalents	(24,201.02)	17,688.79	(6,512.23)
Cash and cash equivalents, January 1	152,125.66	85,109.58	237,235.24
Cash and cash equivalents, December 31	127,924.64	102,798.37	230,723.01
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>			
Operating income (Loss)	(25,259.96)	13,369.60	(11,890.36)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	896.00	29,475.00	30,371.00
Net cash provided (used) by operating activities	(24,363.96)	42,844.60	18,480.64

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

CITY OF NEW SALEM
New Salem, North Dakota

Notes to the Financial Statements
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New Salem 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, there are no component units to be included within the City of New Salem as a reporting entity.

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 New Salem. 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, 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.

Sales Tax Fund. This fund accounts for the city's sales tax collections, which are used for the betterment and improvement of the city.

Highway Fund. This fund accounts for the accumulation of the highway distribution tax to be used for street repairs and maintenance.

Auditorium Set-Aside Fund. This fund accounts for resources set-aside to cover costs related to the city's auditorium building.

The city reports the following major enterprise funds:

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

Sewer Fund. This fund accounts for the activities of the city's sewage 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	40 to 100 years
Machinery and Vehicles	10 to 20 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

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. Pensions

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

I. Fund Equity

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

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

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

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

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

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

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

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

- Committed
- Assigned
- Unassigned

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

J. Interfund Transactions

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

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

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

K. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by

the State of North Dakota, its boards, agencies 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 \$1,528,793 and the bank balance was \$1,536,587. Of the bank balance, \$655,960 was covered by Federal Depository Insurance. The remaining balance of \$880,627 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2018 the city's carrying amount of deposits was \$1,048,142 and the bank balance was \$1,058,933. Of the bank balance, \$405,457 was covered by Federal Depository Insurance. The remaining balance of \$653,476 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2019, the city held certificates of deposit in the amount of \$101,922, which are all considered deposits.

At December 31, 2018, the city held certificates of deposit in the amount of \$101,510, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on 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 CAPITAL ASSETS

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

December 31, 2019

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	420,000			420,000
Machinery and Vehicles	247,611	56,161	12,500	291,272
Total	667,611	56,161	12,500	711,272
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	355,800	4,200		360,000
Machinery and Vehicles	103,989	15,350	12,500	106,839
Total	459,789	19,550	12,500	466,839
Governmental Activities Capital Assets, Net	207,822	36,611	-	244,433

December 31, 2018

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	420,000			420,000
Machinery and Vehicles	247,611			247,611
Total	667,611	-	-	667,611
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	351,600	4,200		355,800
Machinery and Vehicles	92,083	11,906		103,989
Total	443,683	16,106	-	459,789
Governmental Activities Capital Assets, Net	223,928	(16,106)	-	207,822

December 31, 2019

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in Progress		3,934,710		3,934,710
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,179,000			1,179,000
Machinery and Vehicles	8,960			8,960
Total	1,187,960	-	-	1,187,960
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	292,150	29,475		321,625
Machinery and Vehicles	8,960			8,960
Total	301,110	29,475	-	330,585
Total capital assets being depreciated, net	886,850	(29,475)	-	857,375
Business-type Activities Capital Assets, Net	886,850	3,905,235	-	4,792,085

December 31, 2018

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,179,000			1,179,000
Machinery and Vehicles	8,960			8,960
Total	1,187,960	-	-	1,187,960
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	262,675	29,475		292,150
Machinery and Vehicles	8,064	896		8,960
Total	270,739	30,371	-	301,110
Business-type Activities Capital Assets, Net	917,221	(30,371)	-	886,850

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
<u>Governmental Activities:</u>		
General Government	4,200	4,200
Street and Public Works	<u>15,350</u>	<u>11,906</u>
Total Depreciation Expense	<u><u>19,550</u></u>	<u><u>16,106</u></u>
<u>Business-type Activities:</u>		
Water		896
Sewer	<u>29,475</u>	<u>29,475</u>
Total Depreciation Expense	<u><u>29,475</u></u>	<u><u>30,371</u></u>

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2019 and 2018, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Business-type Activities (Proprietary Funds):

	<u>2019</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	<u>705,000</u>	<u>4,936,086</u>	<u>2,109,000</u>	<u>3,532,086</u>	<u>103,797</u>

	<u>2018</u>				
	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	<u>730,000</u>		<u>25,000</u>	<u>705,000</u>	<u>25,000</u>

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

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2019 are as follows:

\$780,000 Refunding Bonds, Series 2015, due in annual installments of \$25,000 to \$45,000 through March 1, 2039; interest is at 1.5% to 4%.	680,000.00
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\$2,084,000 Water and Sewer Revenue Bonds,
Series 2019, due in annual installments of \$81,297
through November 1, 2059; interest is at 2.375%.

2,084,000.00

Total Revenue Bonds Payable

2,764,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	56,802.00	73,307.50
2021	57,557.30	71,927.20
2022	58,330.53	70,528.97
2023	59,122.13	69,112.37
2024	64,932.53	67,614.47
2025-2029	337,508.55	311,163.95
2030-2034	395,858.29	257,726.71
2035-2039	452,115.65	191,469.35
2040-2044	266,642.76	139,842.24
2045-2049	299,846.78	106,638.22
2050-2054	337,185.56	69,299.44
2055-2059	378,097.92	27,311.02
Total	<u><u>2,764,000.00</u></u>	<u><u>1,455,941.44</u></u>

As allowed by NDCC 6-09-49, the city has also received funding from the Infrastructure Revolving Loan Program from the Bank of North Dakota. The city is in the process of a water, sewer and road rehabilitation project and has issued the Water and Sales Tax Revenue Bonds, Series 2019, in the amount of \$1,253,000. As of December 31, 2019, the city had requested drawdowns of \$765,085.65. The infrastructure project was not completed as of December 31, 2019 and a final debt schedule is not available since the city had not yet received the full dollar amount of drawdowns under this agreement. The outstanding balance at December 31, 2019 is \$768,085.65. The city has \$484,914.35 still available as of December 31, 2019.

Note 6 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:

December 31, 2019

Water and Sewer Improvement Project	1.00	
General Fund		1.00

To set-aside funds for USDA construction account.

USDA Reserve Account	250,000.00	
City Sales Tax		250,000.00
To set-aside funds for USDA project reserves.		
Sewer	24,906.25	
City Sales Tax		24,906.25
To subsidize debt service payments.		
<u>December 31, 2018</u>		
Auditorium Set-Aside	1,643.91	
General Fund		1,643.91
To subsidize expenditures.		
Water and Sewer Improvement Project	100.00	
General Fund		100.00
To set-aside funds for USDA construction account.		
Sewer	24,843.75	
City Sales Tax		24,843.75
To subsidize debt service payments.		

Note 7 RISK MANAGEMENT

The City of New Salem 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 (NDRIF), 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 NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$3,000,000 per occurrence for general liability and automobile; and \$308,761 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 \$477,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

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 New Salem reported a liability of \$200,420 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 .0118760 percent, which was an increase of .000038 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2019, the city recognized pension expense of \$37,654. 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	530	6,819
Changes in assumptions	72,348	2,861
Net difference between projected and actual earnings on pension plan investments	-	975
Changes in proportion and differences between employer contributions and proportionate share of contributions	16,411	3,061
City contributions subsequent to the measurement date (see below)	10,263	
Total	<u>99,552</u>	<u>13,716</u>

\$10,263 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	25,219
2020	22,504
2021	17,296
2022	10,029
2023	525
Thereafter	0

Actuarial assumptions. 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 expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	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	272,334	200,420	140,411

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 NEW SALEM
New Salem, 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	149,546.80	149,546.80	144,198.74	(5,348.06)
Licenses, Permits and Fees	12,525.00	12,525.00	13,153.66	628.66
Intergovernmental	59,150.00	59,150.00	95,224.90	36,074.90
Charges for Services	19,600.00	19,600.00	24,861.56	5,261.56
Fines and Forfeits	200.00	200.00	68.00	(132.00)
Miscellaneous	9,300.00	9,300.00	17,883.08	8,583.08
Total Revenues	250,321.80	250,321.80	295,389.94	45,068.14
<u>Expenditures:</u>				
Current:				
General Government	206,245.00	206,245.00	171,930.74	34,314.26
Public Safety	44,905.00	44,905.00	42,397.98	2,507.02
Streets and Public Works	26,120.00	26,120.00	31,172.95	(5,052.95)
Culture and Recreation	8,000.00	8,000.00	8,350.30	(350.30)
Total Expenditures	285,270.00	285,270.00	253,851.97	31,418.03
Excess (Deficiency) of Revenue Over Expenditures	(34,948.20)	(34,948.20)	41,537.97	76,486.17
<u>Other Financing (Uses):</u>				
Transfers Out			(1.00)	(1.00)
Net Change in Fund Balances	(34,948.20)	(34,948.20)	41,536.97	76,485.17
Fund Balance - January 1	311,504.91	311,504.91	311,504.91	
Fund Balance - December 31	276,556.71	276,556.71	353,041.88	76,485.17

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	124,266.09	124,266.09	119,752.67	(4,513.42)
Licenses, Permits and Fees	14,675.00	14,675.00	19,308.90	4,633.90
Intergovernmental	58,500.00	58,500.00	83,355.81	24,855.81
Charges for Services	18,000.00	18,000.00	28,163.13	10,163.13
Fines and Forfeits	100.00	100.00	180.00	80.00
Miscellaneous	7,840.00	7,840.00	14,969.41	7,129.41
Total Revenues	223,381.09	223,381.09	265,729.92	42,348.83
<u>Expenditures:</u>				
Current:				
General Government	171,405.00	171,405.00	169,004.06	2,400.94
Public Safety	44,770.00	44,770.00	42,139.26	2,630.74
Streets and Public Works	26,640.00	26,640.00	25,759.66	880.34
Culture and Recreation	7,800.00	7,800.00	11,442.01	(3,642.01)
Total Expenditures	250,615.00	250,615.00	248,344.99	2,270.01
Excess (Deficiency) of Revenue Over Expenditures	(27,233.91)	(27,233.91)	17,384.93	44,618.84
<u>Other Financing (Uses):</u>				
Transfers Out			(1,743.91)	(1,743.91)
Net Change in Fund Balances	(27,233.91)	(27,233.91)	15,641.02	42,874.93
Fund Balance - January 1	295,863.89	295,863.89	295,863.89	
Fund Balance - December 31	268,629.98	268,629.98	311,504.91	42,874.93

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	185,000.00	185,000.00	193,937.48	8,937.48
Miscellaneous	36.00	36.00	157,855.90	157,819.90
Total Revenues	185,036.00	185,036.00	351,793.38	166,757.38
<u>Expenditures:</u>				
Current:				
Streets and Public Works	15,000.00	15,000.00	26,672.64	(11,672.64)
Capital Outlay	27,500.00	27,500.00	56,161.00	(28,661.00)
Total Expenditures	42,500.00	42,500.00	82,833.64	(40,333.64)
Excess (Deficiency) of Revenue Over Expenditures	142,536.00	142,536.00	268,959.74	126,423.74
<u>Other Financing (Uses):</u>				
Transfers Out	(26,500.00)	(26,500.00)	(274,906.25)	(248,406.25)
Net Change in Fund Balances	116,036.00	116,036.00	(5,946.51)	(121,982.51)
Fund Balance - January 1	256,406.58	256,406.58	256,406.58	
Fund Balance - December 31	372,442.58	372,442.58	250,460.07	(121,982.51)

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	111,000.00	111,000.00	92,678.17	(18,321.83)
Miscellaneous	32.00	32.00	29.98	(2.02)
Total Revenues	111,032.00	111,032.00	92,708.15	(18,323.85)
<u>Expenditures:</u>				
Current:				
Streets and Public Works			148,042.43	(148,042.43)
Excess (Deficiency) of Revenue Over Expenditures	111,032.00	111,032.00	(55,334.28)	(166,366.28)
<u>Other Financing (Uses):</u>				
Transfers Out	(25,000.00)	(25,000.00)	(24,843.75)	156.25
Net Change in Fund Balances	86,032.00	86,032.00	(80,178.03)	(166,210.03)
Fund Balance - January 1	336,584.61	336,584.61	336,584.61	
Fund Balance - December 31	422,616.61	422,616.61	256,406.58	(166,210.03)

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	68,000.00	68,000.00	74,681.99	6,681.99
Charges for Services	51,200.00	51,200.00	53,182.92	1,982.92
Miscellaneous	30.00	30.00	70.52	40.52
Total Revenues	119,230.00	119,230.00	127,935.43	8,705.43
<u>Expenditures:</u>				
Current:				
Streets and Public Works	112,625.00	112,625.00	127,265.14	(14,640.14)
Net Change in Fund Balances	6,605.00	6,605.00	670.29	(5,934.71)
Fund Balance - January 1	234,528.62	234,528.62	234,528.62	
Fund Balance - December 31	241,133.62	241,133.62	235,198.91	(5,934.71)

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	52,500.00	52,500.00	73,030.45	20,530.45
Charges for Services	63,000.00	63,000.00	51,192.39	(11,807.61)
Miscellaneous	30.25	30.25	6,455.49	6,425.24
Total Revenues	115,530.25	115,530.25	130,678.33	15,148.08
<u>Expenditures:</u>				
Current:				
Streets and Public Works	95,475.00	95,475.00	109,998.31	(14,523.31)
Net Change in Fund Balances	20,055.25	20,055.25	20,680.02	624.77
Fund Balance - January 1	213,848.60	213,848.60	213,848.60	
Fund Balance - December 31	233,903.85	233,903.85	234,528.62	624.77

CITY OF NEW SALEM
New Salem North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Miscellaneous	507.20	507.20	13.58	(493.62)
<u>Expenditures:</u>				
Current:				
Streets and Public Works			-	-
Net Change in Fund Balances	507.20	507.20	13.58	(493.62)
Fund Balance - January 1	3.39	3.39	3.39	
Fund Balance - December 31	510.59	510.59	16.97	(493.62)

CITY OF NEW SALEM
New Salem, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Miscellaneous	7.20	7.20	507.30	500.10
<u>Expenditures:</u>				
Current:				
Streets and Public Works			70,976.54	(70,976.54)
Excess (Deficiency) of Revenue Over Expenditures	7.20	7.20	(70,469.24)	(70,476.44)
<u>Other Financing Sources:</u>				
Transfers In			1,643.91	1,643.91
Net Change in Fund Balances	7.20	7.20	(68,825.33)	(68,832.53)
Fund Balance - January 1	68,828.72	68,828.72	68,828.72	
Fund Balance - December 31	68,835.92	68,835.92	3.39	(68,832.53)

CITY OF NEW SALEM
New Salem, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2019 and 2018

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general and special revenue 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

Budget Amendments

The governing board did not amend the city's budgets during the years ended December 31, 2019 and 2018.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
<u>Special Revenue Funds</u>		
Sales Tax	40,333.64	148,042.43
Highway Distribution	14,640.14	14,523.31
Auditorium Set-Aside		70,976.54

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

CITY OF NEW SALEM
New Salem, 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	0.011876%	0.011838%	0.009366%	0.010204%	0.008258%
City's proportionate share of the net pension liability	200,420	190,276	91,281	69,385	52,415
City's covered employee payroll	121,998	116,932	94,385	90,906	96,553
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	164.28%	162.72%	96.71%	76.33%	54.29%
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	8,686	8,326	6,720	6,473	6,411
Contributions in relation to the statutorily required contributions	(8,686)	(8,326)	(6,720)	(6,473)	(6,411)
Contribution deficiency (excess)	0	0	0	0	0
City's covered-employee payroll	121,998	116,932	94,385	90,906	96,553
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	6.64%

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

- For changes of assumptions, see Note 8 to the financial statements.

CITY OF NEW SALEM
New Salem, 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
<u>Major Governmental Funds</u>						
General Fund	311,504.91	295,389.94		1.00	253,851.97	353,041.88
Sales Tax	256,406.58	351,793.38		274,906.25	82,833.64	250,460.07
Highway Distribution	234,528.62	127,935.43			127,265.14	235,198.91
Auditorium Set-Aside	3.39	13.58				16.97
Total Major Governmental Funds	802,443.50	775,132.33	-	274,907.25	463,950.75	838,717.83
<u>Non-major Governmental Funds</u>						
Emergency	6,565.26	5,337.48				11,902.74
Equipment	8,410.21	27.23				8,437.44
Total Nonmajor Governmental Funds	14,975.47	5,364.71	-	-	-	20,340.18
Total Governmental Funds	817,418.97	780,497.04	-	274,907.25	463,950.75	859,058.01
<u>Major Enterprise Funds</u>						
Water:						
Operating	127,824.64	471,782.30			282,307.88	317,299.06
Water and Sewer Construction	100.00	6,065,762.81	1.00		6,065,723.28	140.53
Project Reserves		1,629.15	250,000.00			251,629.15
Sewer	102,798.37	111,985.41	24,906.25		139,023.36	100,666.67
Total Major Enterprise Funds	230,723.01	6,651,159.67	274,907.25	-	6,487,054.52	669,735.41
Total Funds	1,048,141.98	7,431,656.71	274,907.25	274,907.25	6,951,005.27	1,528,793.42

CITY OF NEW SALEM
New Salem, North Dakota

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

	Balance 1/1/2018	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12/31/2018
<u>Major Governmental Funds</u>						
General Fund	295,863.89	265,729.92		1,743.91	248,344.99	311,504.91
Sales Tax	336,584.61	92,708.15		24,843.75	148,042.43	256,406.58
Highway Distribution	213,848.60	130,678.33			109,998.31	234,528.62
Auditorium Set-Aside	68,828.72	507.30	1,643.91		70,976.54	3.39
Total Major Governmental Funds	915,125.82	489,623.70	1,643.91	26,587.66	577,362.27	802,443.50
<u>Non-major Governmental Funds</u>						
Emergency	4,652.26	1,913.00				6,565.26
Equipment	8,395.57	14.64				8,410.21
Total Nonmajor Governmental Funds	13,047.83	1,927.64	-	-	-	14,975.47
Total Governmental Funds	928,173.65	491,551.34	1,643.91	26,587.66	577,362.27	817,418.97
<u>Major Enterprise Funds</u>						
Water:						
Operating	152,125.66	264,640.61			288,941.63	127,824.64
Water and Sewer Construction			100.00			100.00
Sewer	85,109.58	102,621.68	24,843.75		109,776.64	102,798.37
Total Major Enterprise Funds	237,235.24	367,262.29	24,943.75	-	398,718.27	230,723.01
Total Funds	1,165,408.89	858,813.63	26,587.66	26,587.66	976,080.54	1,048,141.98

CITY OF NEW SALEM
New Salem, North Dakota

Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2019 and 2018

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	
			2019	2018
<u>U.S. Department of Agriculture</u>				
Rural Development - Direct Program:				
Part 1774 Special Evalutation Assistance for Rural Communities and Households	10.759		1,149.29	
Community Facilities Loans and Grants - Loans	10.766		2,084,000.00	
Community Facilities Loans and Grants - Grants	10.766		829,637.63	
Total Community Facilities Loans and Grants			2,913,637.63	-
Total U.S. Department of Agriculture			2,914,786.92	-
<u>U.S. Department of Housing and Urban Development</u>				
Passed Through the State Division of Community Services:				
Community Development Block Grant/State's Program	14.228	4440-CD18-PF	300,000.00	
Total Expenditures of Federal Awards			3,214,786.92	-

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

The de minimis indirect cost rate was not used.

Note 2 - Loans Outstanding

Program Title	Federal CFDA Number	Outstanding Loan Balance
Community Facility Loans and Grants	10.766	2,084,000.00

Rath & Mehrer, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New Salem
New Salem, 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, each major fund and the aggregate remaining fund information of the City of New Salem, New Salem, North Dakota, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated June 19, 2020.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits 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

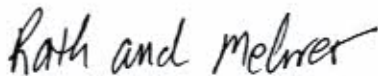
As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 audits is described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits 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

June 19, 2020

Rath & Mehrer, P.C.

Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of New Salem
New Salem, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of New Salem's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the city's major federal programs for the years ended December 31, 2019 and 2018. The city's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the city's major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audits 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 audits to obtain reasonable assurance about whether noncompliance 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance for each major program. However, our audits do not provide a legal determination of the city's compliance.

Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019 and 2018.

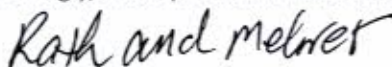
Report on Internal Control Over Compliance

Management of the City of New Salem 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 audits of compliance, we considered the city'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 an 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

June 19, 2020

CITY OF NEW SALEM
New Salem, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2019 and 2018

SECTION I – SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities
Business-Type Activities
Major Governmental Funds
Major Business-Type Funds
Aggregate Remaining Fund Information

Unmodified-Modified Cash Basis
Unmodified-Modified Cash Basis
Unmodified-Modified Cash Basis
Unmodified-Modified Cash Basis
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

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for major program(s):

Unmodified

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

☐ Yes ☒ No

Identification of major program(s):

CFDA Number

Name of Federal Program

10.766

Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B Programs:

\$750,000

Auditee qualified as a low-risk auditee?

☐ 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2017-001

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 external 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 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.

Repeat Finding from Prior Year: Yes, prior year finding No. 2017-002

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

No matters were reported

CITY OF NEW SALEM
New Salem, North Dakota

Summary Schedule of Prior Audit Findings
For the Years Ended December 31, 2019 and 2018

1. Finding No. 2017-001: Segregation of Duties

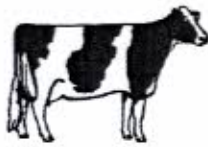
Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2019-001.

Reasons for Recurrence and Corrective Action Plan: The city has determined that it is not cost effective to employ additional personnel just to adequately segregate duties. See Corrective Action Plan.

2. Finding No. 2017-002: Financial Statement Preparation

Status: This finding is repeated and updated in the Schedule of Findings and Responses as No. 2019-002.

Reasons for Recurrence and Corrective Action Plan: The city feels it is more cost effective to have their external auditors prepare the financial statements and note disclosures. See Corrective Action Plan.



City of New Salem

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CITY OF NEW SALEM
New Salem, North Dakota

Corrective Action Plan
For the Years Ended December 31, 2019 and 2018

1. Finding No. 2019-001: Segregation of Duties

Contact Person: Melissa Davis, City Auditor

Corrective Action Plan: The city has determined that it is not cost effective to employ additional personnel just to adequately segregate duties.

Completion Date: The City of New Salem will implement when it becomes cost effective.

2. Finding No. 2019-002: Financial Statement Preparation

Contact Person: Melissa Davis, City Auditor

Corrective Action Plan: The city feels that it is more cost effective to have their external auditors prepare the financial statements and note disclosures.

Completion Date: The City of New Salem will implement when it becomes cost effective.