

# **AUDIT REPORT**

CITY OF PARSHALL  
Parshall, North Dakota

For the Year Ended December 31, 2019

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

CITY OF Parshall  
Parshall, North Dakota

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For the Year Ended December 31, 2019

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CITY OF PARSHALL  
Parshall, North Dakota

CITY OFFICIALS

Kyle Christianson	Mayor
Pem Hall	Councilman
Tom Huus	Councilman
Katherine Moreno	Councilman
Robert Morenski	Councilman
Kelly Woessner	Auditor

# Rath & Mehrer, P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Parshall  
Parshall, North Dakota

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

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

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

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

### **Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parshall, Parshall, North Dakota, as of December 31, 2019, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

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

## Other Matters

### Other Information

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

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 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

May 8, 2020

CITY OF PARSHALL  
Parshall, North Dakota

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	2,946,160.57		2,946,160.57	247,503.65
Interfund Receivables	3,152,652.73		3,152,652.73	
Capital Assets (net of accumulated depreciation):				
Land	59,600.00	850,000.00	909,600.00	
Buildings and Infrastructure	10,251,913.00	36,613,128.00	46,865,041.00	1,299,036.00
Machinery and Vehicles	382,216.00	52,472.00	434,688.00	
Total Capital Assets	10,693,729.00	37,515,600.00	48,209,329.00	1,299,036.00
<b>Total Assets</b>	<b>16,792,542.30</b>	<b>37,515,600.00</b>	<b>54,308,142.30</b>	<b>1,546,539.65</b>
<b>LIABILITIES:</b>				
Interfund Payables		3,152,652.73	3,152,652.73	
Long-Term Liabilities:				
Due Within One Year:				
Revenue Bonds Payable		681,000.00	681,000.00	
Due After One Year:				
Revenue Bonds Payable		8,790,000.00	8,790,000.00	
<b>Total Liabilities</b>		<b>12,623,652.73</b>	<b>12,623,652.73</b>	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	10,693,729.00	28,044,600.00	38,738,329.00	1,299,036.00
Restricted for:				
Debt Service		2,536,500.67	2,536,500.67	
Water Plant Construction		115,847.11	115,847.11	
Special Purposes	42,164.71		42,164.71	
Unrestricted	6,056,648.59	(5,805,000.51)	251,648.08	247,503.65
<b>Total Net Position</b>	<b>16,792,542.30</b>	<b>24,891,947.27</b>	<b>41,684,489.57</b>	<b>1,546,539.65</b>

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

CITY OF PARSHALL  
Parshall, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2019

Net (Expense) Revenue and Changes in Net Position

	Program Revenues				Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport	
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	428,368.26	35,422.77	250.43	(392,695.06)		(392,695.06)		
Streets and Public Works	575,226.49	92,197.11		(483,029.38)		(483,029.38)		
Urban and Economic Development	9,956.82			(9,956.82)		(9,956.82)		
Culture and Recreation	172,823.46	10,152.00	11,438.42	(151,233.04)		(151,233.04)		
Other	783.54			(783.54)		(783.54)		
<b>Total Governmental Activities</b>	<b>1,187,158.57</b>	<b>45,574.77</b>	<b>103,885.96</b>	<b>(1,037,697.84)</b>		<b>(1,037,697.84)</b>		
<u>Business-Type Activities:</u>								
Water	2,302,730.03	358,962.10			(1,943,767.93)	(1,943,767.93)		
Sewer	13,946.92	66,290.36			52,343.44	52,343.44		
Garbage	70,314.10	66,255.64			(4,058.46)	(4,058.46)		
<b>Total Business-Type Activities</b>	<b>2,386,991.05</b>	<b>491,508.10</b>			<b>(1,895,482.95)</b>	<b>(1,895,482.95)</b>		
<b>Total Primary Government</b>	<b>3,574,149.62</b>	<b>537,082.87</b>	<b>103,885.96</b>	<b>(1,037,697.84)</b>	<b>(1,895,482.95)</b>	<b>(2,933,180.79)</b>		
<b>Component Unit:</b>								
Airport	214,139.77	9,060.63	64,010.00				(141,069.14)	

General Revenues:

Taxes:

Property taxes; levied for general purposes	90,308.79	90,308.79	122,063.79
Property taxes; levied for special purposes	49,171.12	49,171.12	—
Restaurant and lodging taxes	6,679.38	6,679.38	—
Oil and gas production taxes	1,851,794.96	1,851,794.96	—
Homestead credit taxes	478.87	478.87	—
Intergovernmental revenue not restricted to specific programs	105,815.70	105,815.70	—
Earnings on investments and other revenue	88,567.94	19,862.79	1,531.07
Total General Revenues	2,192,816.76	19,862.79	123,594.86
Change in Net Position	1,155,118.92	(1,875,620.16)	(17,474.28)
Net Position - January 1	15,637,423.38	26,767,567.43	1,564,013.93
Net Position - December 31	16,792,542.30	24,891,947.27	1,546,539.65

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



CITY OF PARSHALL  
Parshall, North Dakota

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

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Highway Distribution	Building Construction		
<b>ASSETS:</b>					
Cash, Cash Equivalents and Investments	2,792,956.74			153,203.83	2,946,160.57
Interfund Receivables	7,909,169.81				7,909,169.81
<b>Total Assets</b>	<b>10,702,126.55</b>	<b>-0-</b>	<b>-0-</b>	<b>153,203.83</b>	<b>10,855,330.38</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Interfund Payables		1,012,202.61	3,390,912.46	353,402.01	4,756,517.08
<b>Fund Balances</b>					
<b>Restricted for:</b>					
General Government				12,413.41	12,413.41
Urban and Economic Development				25,129.47	25,129.47
Conservation of Natural Resources				2,263.55	2,263.55
Other				2,358.28	2,358.28
<b>Assigned to:</b>					
Streets and Public Works				111,039.12	111,039.12
Unassigned	10,702,126.55	(1,012,202.61)	(3,390,912.46)	(353,402.01)	5,945,609.47
<b>Total Fund Balances</b>	<b>10,702,126.55</b>	<b>(1,012,202.61)</b>	<b>(3,390,912.46)</b>	<b>(200,198.18)</b>	<b>6,098,813.30</b>
<b>Total Liabilities and Fund Balances</b>	<b>10,702,126.55</b>	<b>-0-</b>	<b>-0-</b>	<b>153,203.83</b>	<b>10,855,330.38</b>

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

CITY OF PARSHALL  
Parshall, 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		6,098,813.30
Total net position reported for government 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	13,482,382.00	
Less Accumulated Depreciation	(2,788,653.00)	
Net Capital Assets	<hr/>	10,693,729.00
Total Net Position of Governmental Activities		<hr/> 16,792,542.30 =====

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

CITY OF PARSHALL  
Parshall, North Dakota

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

	Major Funds				Total Governmental Funds
	General	Highway Distribution	Building Construction	Other Governmental Funds	
<b>Revenues:</b>					
Taxes	92,686.30		455.65	53,017.34	146,159.29
Licenses, Permits and Fees	35,422.77			10,152.00	45,574.77
Intergovernmental	1,958,339.96	92,197.11		11,438.42	2,061,975.49
Miscellaneous	78,096.20	7,812.19		2,659.55	88,567.94
<b>Total Revenues</b>	<b>2,164,545.23</b>	<b>100,009.30</b>	<b>455.65</b>	<b>77,267.31</b>	<b>2,342,277.49</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	310,857.07			41,659.19	352,516.26
Streets and Public Works		345,509.49			345,509.49
Urban and Economic Development				9,956.82	9,956.82
Culture and Recreation	23,890.11			86,013.35	109,903.46
Other				783.54	783.54
Capital Outlay		39,400.00			39,400.00
<b>Total Expenditures</b>	<b>334,747.18</b>	<b>384,909.49</b>		<b>138,412.90</b>	<b>858,069.57</b>
<b>Net Change in Fund Balance</b>	<b>1,829,798.05</b>	<b>(284,900.19)</b>	<b>455.65</b>	<b>(61,145.59)</b>	<b>1,484,207.92</b>
<b>Fund Balance - January 1</b>	<b>8,872,328.50</b>	<b>(727,302.42)</b>	<b>(3,391,368.11)</b>	<b>(139,052.59)</b>	<b>4,614,605.38</b>
<b>Fund Balance - December 31</b>	<b>10,702,126.55</b>	<b>(1,012,202.61)</b>	<b>(3,390,912.46)</b>	<b>(200,198.18)</b>	<b>6,098,813.30</b>

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

CITY OF PARSHALL  
Parshall, 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 1,484,207.92

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	39,400.00	
Current Year Depreciation Expense	(368,489.00)	(329,089.00)
	<hr/>	<hr/>
Change in Net Position of Governmental Activities		1,155,118.92
		=====

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

CITY OF PARSHALL  
Parshall, North Dakota

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

	Major Enterprise Fund		Total Enterprise Funds
	Water Fund	Other Enterprise Funds	
<b>ASSETS</b>			
<u>Current Assets:</u>			
Interfund Receivables		163,053.40	163,053.40
<u>Noncurrent Assets:</u>			
Capital Assets (net of accumulated depr):			
Land	850,000.00		850,000.00
Buildings and Infrastructure	36,605,003.00	8,125.00	36,613,128.00
Machinery and Vehicles	52,472.00		52,472.00
Total Noncurrent Assets	37,507,475.00	8,125.00	37,515,600.00
Total Assets	37,507,475.00	171,178.40	37,678,653.40
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Interfund Payables	3,301,281.44	14,424.69	3,315,706.13
Revenue Bonds Payable	681,000.00		681,000.00
Total Current Liabilities	3,982,281.44	14,424.69	3,996,706.13
<u>Noncurrent Liabilities:</u>			
Revenue Bonds Payable	8,790,000.00		8,790,000.00
Total Liabilities	12,772,281.44	14,424.69	12,786,706.13
<u>NET POSITION</u>			
Net Investment in Capital Assets	28,036,475.00	8,125.00	28,044,600.00
Restricted for Debt Service	2,536,500.67		2,536,500.67
Restricted for Water Plant Construction	115,847.11		115,847.11
Unrestricted	(5,953,629.22)	148,628.71	(5,805,000.51)
Total Net Position	24,735,193.56	156,753.71	24,891,947.27

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

CITY OF PARSHALL  
Parshall, 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 Fund		Total Enterprise Funds
	Water Fund	Other Enterprise Funds	
<u>Operating Revenues:</u>			
Charges for Sales and Services:			
Water Collections	255,619.86		255,619.86
Sewer Collections		66,290.36	66,290.36
Garbage Collections		66,255.64	66,255.64
Bulk Water Sales	96,850.26		96,850.26
Other Charges	6,491.98		6,491.98
<b>Total Operating Revenues</b>	<b>358,962.10</b>	<b>132,546.00</b>	<b>491,508.10</b>
<u>Operating Expenses:</u>			
Salaries and Wages	217,481.01		217,481.01
Health Insurance	49,557.79		49,557.79
Employee Retirement	15,223.59		15,223.59
Workers Compensation	1,012.76		1,012.76
Chemicals	22,510.42		22,510.42
Utilities	213,746.24	9,843.55	223,589.79
Repairs and Maintenance	166,729.64	2,425.00	169,154.64
Water Operating	78,329.06		78,329.06
Sewer Operating		53.37	53.37
Garbage Operating		70,314.10	70,314.10
Depreciation	1,233,577.00	1,625.00	1,235,202.00
<b>Total Operating Expenses</b>	<b>1,998,167.51</b>	<b>84,261.02</b>	<b>2,082,428.53</b>
<b>Operating Income</b>	<b>(1,639,205.41)</b>	<b>48,284.98</b>	<b>(1,590,920.43)</b>
<u>Non-Operating Revenues (Expenses):</u>			
Interest Income	19,862.79		19,862.79
Debt Service - Interest & Service Charges	(304,562.52)		(304,562.52)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(284,699.73)</b>		<b>(284,699.73)</b>
<b>Income (Loss) Before Transfers</b>	<b>(1,923,905.14)</b>	<b>48,284.98</b>	<b>(1,875,620.16)</b>
Transfers In	900,000.00		900,000.00
Transfers Out	(900,000.00)		(900,000.00)
<b>Change in Net Position</b>	<b>(1,923,905.14)</b>	<b>48,284.98</b>	<b>(1,875,620.16)</b>
<b>Net Position - January 1</b>	<b>26,659,098.70</b>	<b>108,468.73</b>	<b>26,767,567.43</b>
<b>Net Position - December 31</b>	<b>24,735,193.56</b>	<b>156,753.71</b>	<b>24,891,947.27</b>

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

CITY OF PARSHALL  
Parshall, North Dakota

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

	Major Enterprise Fund		Total Enterprise Funds
	Water Fund	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>			
Receipts from customers	358,962.10	132,546.00	491,508.10
Payments to suppliers	(481,315.36)	(82,636.02)	(563,951.38)
Payments to employees	(217,481.01)		(217,481.01)
Payments on behalf of employees	(65,794.14)		(65,794.14)
Net cash provided (used) by operating activities	(405,628.41)	49,909.98	(355,718.43)
<u>Cash flows from noncapital financing activities:</u>			
Transfers in	900,000.00		900,000.00
Transfers out	(900,000.00)		(900,000.00)
Interfund loan transaction	2,736,928.14	(49,909.98)	2,687,018.16
Net cash provided (used) by noncapital financing activities	2,736,928.14	(49,909.98)	2,687,018.16
<u>Cash flows from capital and related financing activities:</u>			
Streets and utility projects	(1,383,600.00)		(1,383,600.00)
Principal payments	(663,000.00)		(663,000.00)
Interest and service charges	(304,562.52)		(304,562.52)
Net cash provided (used) by capital and related financing activities	(2,351,162.52)		(2,351,162.52)
<u>Cash flows from investing activities:</u>			
Interest income	19,862.79		19,862.79
Net increase in cash and cash equivalents	0.00		0.00
Cash and cash equivalents, January 1	-0-	-0-	-0-
Cash and cash equivalents, December 31	-0-	-0-	-0-
=====			
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>			
Operating income (loss)	(1,639,205.41)	48,284.98	(1,590,920.43)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	1,233,577.00	1,625.00	1,235,202.00
Net cash provided (used) by operating activities	(405,628.41)	49,909.98	(355,718.43)
=====			

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

CITY OF PARSHALL  
Parshall, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Custodial Funds  
December 31, 2019

	Custodial Funds
<u>Assets:</u>	
Cash, Cash Equivalents and Investments	11,698.74 =====
<u>Liabilities:</u>	
Due to Other Governments	11,698.74 =====

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



CITY OF PARSHALL  
Parshall, North Dakota

Statement of Changes in Fiduciary Assets and Liabilities  
Modified Cash Basis - Custodial Funds  
December 31, 2019

	Custodial Funds
<u>Additions:</u>	
Property tax collections for other governments	4,634.21
Miscellaneous collections for other governments	400.00
Total Additions	5,034.21
<u>Deductions:</u>	
Payments of property tax to other governments	9,628.01
Payments of miscellaneous collections to other governments	293.69
Total Deductions	9,921.70
Net Change in Assets and Liabilities	(4,887.49)
Assets and Liabilities - January 1	16,586.23
Assets and Liabilities - December 31	11,698.74

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

CITY OF PARSHALL  
Parshall, North Dakota

Notes to the Financial Statements  
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

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

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

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

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

## B. Basis of Presentation

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

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

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

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

*Building Construction.* This fund accounts for financial resources dedicated to the renovation of the city hall building and other future construction projects.

The city reports the following major enterprise fund:

*Water Fund.* This fund accounts for the activities of the city's water distribution system and accumulation of resources for the payment of long-term debt principal and interest related to the city's various revenue bonds.

The city reports the following type of fiduciary fund:

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

### C. Measurement Focus and Basis of Accounting

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

#### Measurement Focus

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

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

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

#### Basis of Accounting

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

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

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

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings and Infrastructure	25 to 100 years
Machinery and Vehicles	7 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. 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 commission through the adoption of a resolution. The city commission 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.

## I. 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.

## J. 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 \$2,957,859 and the bank balance was \$3,177,982. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,927,982 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 \$180,650, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2019 are as follows:

	<u>Receivable</u> <u>Fund</u>	<u>Payable</u> <u>Fund</u>
General Fund	7,909,169.81	
Highway Distribution		1,012,202.61
Building Construction		3,390,912.46
Social Security		151,008.25
Rock Museum		76,878.81
Library		51,417.22
Golf Course		74,097.73
Water		3,152,652.73
Sewer	163,053.40	
Water		148,628.71
Garbage		14,424.69



Note 5 CAPITAL ASSETS

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

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	59,600			59,600
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	12,579,462			12,579,462
Machinery and Vehicles	803,920	39,400		843,320
<b>Total</b>	<u>13,383,382</u>	<u>39,408</u>		<u>13,422,782</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	2,013,585	313,964		2,327,549
Machinery and Vehicles	406,579	54,525		461,104
<b>Total</b>	<u>2,420,164</u>	<u>368,489</u>		<u>2,788,653</u>
<b>Total capital assets being depreciated, net</b>	<u>10,963,218</u>	<u>(329,089)</u>		<u>10,634,129</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>11,022,818</u>	<u>(329,089)</u>	<u>-0-</u>	<u>10,693,729</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	850,000			850,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	42,648,829	1,383,600		44,032,429
Machinery and Vehicles	370,139			370,139
<b>Total</b>	<u>43,018,968</u>	<u>1,383,600</u>		<u>44,402,568</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	6,199,619	1,219,682		7,419,301
Machinery and Vehicles	302,147	15,520		317,667
<b>Total</b>	<u>6,501,766</u>	<u>1,235,202</u>		<u>7,736,968</u>
<b>Total capital assets being depreciated, net</b>	<u>36,517,202</u>	<u>148,398</u>		<u>36,665,600</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>37,367,202</u>	<u>148,398</u>	<u>-0-</u>	<u>37,515,600</u>

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

<u>Governmental Activities:</u>	
General Government	75,852
Streets and Public Works	229,717
Culture and Recreation	62,920
Total	<u>368,489</u> =====
 <u>Business-type Activities:</u>	
Water	1,233,577
Sewer	1,625
Total	<u>1,235,202</u> =====

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

Airport Authority

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Discretely Presented</b>				
<b>Component Unit:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	1,753,624			1,753,624
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	353,924	100,664		454,588
Discretely Presented Component Unit Capital Assets, Net	1,399,700	(100,664)	-0-	1,299,036
	=====	=====	=====	=====

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

Airport Authority	100,664
	=====

Note 6 LONG-TERM DEBT

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

Business-type Activities

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds Payable	10,134,000	-0-	663,000	9,471,000	681,000
	=====	=====	=====	=====	=====

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

Business-Type Activities (Proprietary Funds):

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:

\$2,887,500 Water Revenue Bonds, Series 2017, due in annual installments of \$190,000 to \$225,000 through September 1, 2030; interest is at 1.5%.	2,280,000
\$5,945,000 Sewer Revenue Bonds, Series 2012A, due in annual installments of \$265,000 to \$400,000 through September 1, 2032; interest is at 2.25% to 3.95%.	4,210,000
\$4,428,000 Water and Sewer Revenue Refunding Bonds, Series 2017B-D, due in annual installments of \$226,000 to \$310,000 through September 1, 2031; interest is at 3.25%.	2,981,000
Total Revenue Bonds Payable	9,471,000 =====

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	681,000	273,978
2021	699,000	257,740
2022	717,000	240,490
2023	739,000	222,000
2024	760,000	202,208
2025-2029	4,144,000	673,755
2030-2031	1,731,000	107,685
Total	9,471,000 =====	1,977,855 =====

Note 7 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Debt Service Reserve	900,000.00	
Water Operating		900,000.00

To set-aside funds for future debt payments.

Note 8 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2019:

<u>Special Revenue Funds</u>	
Highway Distribution	(1,012,202.61)
Social Security	(151,008.25)
Rock Museum	(76,878.81)
Library	(51,417.22)
Golf Course	(74,097.73)
<u>Capital Projects Fund</u>	
Building Construction	(3,390,912.46)
<u>Enterprise Fund</u>	
Water	(3,301,281.44)
Garbage	(14,424.69)

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

Note 9 RISK MANAGEMENT

The City of Parshall 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 (NDRF), 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 NDRF for its general liability, automobile and public assets insurance coverage. The coverage by NDRF is limited to losses of \$5,000,000 per occurrence for general liability and automobile; and \$949,358 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 10 PENSION PLAN

The city provides benefits for all of its full-time employees, after one year of employment, through a defined contribution plan with EMC National Life Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 7% of the employee's gross salary for the year. During the year ended December 31, 2019, the city contributed \$31,397.86.

CITY OF PARSHALL  
Parshall, 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	96,762.73	96,762.73	92,686.30	(4,076.43)
Licenses, Permits and Fees	48,510.00	48,510.00	35,422.77	(13,087.23)
Intergovernmental	1,332,000.00	1,332,000.00	1,958,339.96	626,339.96
Miscellaneous	11,500.00	11,500.00	78,096.20	66,596.20
<b>Total Revenues</b>	<b>1,488,772.73</b>	<b>1,488,772.73</b>	<b>2,164,545.23</b>	<b>675,772.50</b>
<u>Expenditures:</u>				
Current:				
General Government	493,175.00	493,175.00	310,857.07	182,317.93
Culture and Recreation	15,000.00	15,000.00	23,890.11	(8,890.11)
<b>Total Expenditures</b>	<b>508,175.00</b>	<b>508,175.00</b>	<b>334,747.18</b>	<b>173,427.82</b>
<b>Net Change in Fund Balances</b>	<b>980,597.73</b>	<b>980,597.73</b>	<b>1,829,798.05</b>	<b>849,200.32</b>
<b>Fund Balance - January 1</b>	<b>8,872,328.50</b>	<b>8,872,328.50</b>	<b>8,872,328.50</b>	
<b>Fund Balance - December 31</b>	<b>9,852,926.23</b>	<b>9,852,926.23</b>	<b>10,702,126.55</b>	<b>849,200.32</b>

CITY OF PARSHALL  
Parshall, 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	95,000.00	95,000.00	92,197.11	(2,802.89)
Miscellaneous			7,812.19	7,812.19
<b>Total Revenues</b>	<b>95,000.00</b>	<b>95,000.00</b>	<b>100,009.30</b>	<b>5,009.30</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	385,150.00	385,150.00	345,509.49	39,640.51
Capital Outlay	100,000.00	100,000.00	39,400.00	60,600.00
<b>Total Expenditures</b>	<b>485,150.00</b>	<b>485,150.00</b>	<b>384,909.49</b>	<b>100,240.51</b>
<b>Net Change in Fund Balances</b>	<b>(390,150.00)</b>	<b>(390,150.00)</b>	<b>(284,900.19)</b>	<b>105,249.81</b>
<b>Fund Balance - January 1</b>	<b>(727,302.42)</b>	<b>(727,302.42)</b>	<b>(727,302.42)</b>	
<b>Fund Balance - December 31</b>	<b>(1,117,452.42)</b>	<b>(1,117,452.42)</b>	<b>(1,012,202.61)</b>	<b>105,249.81</b>

CITY OF PARSHALL  
Parshall, North Dakota

Notes to the Budgetary Comparison Schedule  
December 31, 2019

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

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

Excess of Actual Expenditures Over Budget

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

<u>Special Revenue Funds</u>	
Rock Museum	18,917.68
Library	5,952.28
* Golf Course	2,058.39

\* A budget was not prepared for this fund.

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

CITY OF PARSHALL  
Parshall, North Dakota

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

	Balance 1-1-19	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-19
<b>Major Governmental Funds:</b>						
General Fund	8,872,328.50	2,164,545.23			334,747.18	10,702,126.55
Highway Distribution	(727,302.42)	100,009.30			384,909.49	(1,012,202.61)
Building Construction	(3,391,368.11)	455.65				(3,390,912.46)
<b>Total Major Governmental Funds</b>	<b>4,753,657.97</b>	<b>2,265,010.18</b>			<b>719,656.67</b>	<b>6,299,011.48</b>
<b>Non-Major Governmental Funds</b>						
Social Security	(109,349.06)				41,659.19	(151,008.25)
Cemetery	(1,017.99)	4,159.81			783.54	2,358.28
Rock Museum	(43,933.13)	20,182.00			53,127.68	(76,878.81)
Forestry	2,263.55					2,263.55
City Property Upkeep	5,777.54					5,777.54
Planning	6,635.79	0.08				6,635.87
Library	(28,635.27)	8,045.33			30,827.28	(51,417.22)
Special Assmt. - City Property	71,088.97	39,950.15				111,039.12
Golf Course	(73,123.06)	1,083.72			2,058.39	(74,097.73)
Restaurant and Lodging Tax	31,240.07	3,846.22			9,956.82	25,129.47
<b>Total Non-Major Governmental Funds</b>	<b>(139,052.59)</b>	<b>77,267.31</b>			<b>138,412.90</b>	<b>(200,198.18)</b>
<b>Total Governmental Funds</b>	<b>4,614,605.38</b>	<b>2,342,277.49</b>			<b>858,069.57</b>	<b>6,098,813.30</b>
<b>Major Enterprise Fund</b>						
<b>Water:</b>						
Water Operating	4,917,086.48	358,962.10		900,000.00	764,584.12	3,611,464.46
Debt Service Reserve	2,500,550.40	19,862.79	900,000.00		967,562.52	2,452,850.67
Water Bonds Reserve	83,650.00					83,650.00
Water Plant Construction	18,847.11					18,847.11
Construction Reserve	97,000.00					97,000.00
Sewer Extension Project	(8,181,487.29)				1,383,606.39	(9,565,093.68)
<b>Total Major Enterprise Fund</b>	<b>(564,353.30)</b>	<b>378,824.89</b>	<b>900,000.00</b>	<b>900,000.00</b>	<b>3,115,753.03</b>	<b>(3,301,281.44)</b>
<b>Non-Major Enterprise Funds</b>						
Sewer	109,084.96	66,290.36			12,321.92	163,053.40
Garbage	(10,366.23)	66,255.64			70,314.10	(14,424.69)
<b>Total Non-Major Enterprise Funds</b>	<b>98,718.73</b>	<b>132,546.00</b>			<b>82,636.02</b>	<b>148,628.71</b>
<b>Total Enterprise Funds</b>	<b>(465,634.57)</b>	<b>511,370.89</b>	<b>900,000.00</b>	<b>900,000.00</b>	<b>3,198,389.05</b>	<b>(3,152,652.73)</b>
<b>Custodial Funds</b>						
Recreation	6,958.22					6,958.22
Airport	9,628.01	5,034.21			9,921.70	4,740.52
<b>Total Custodial Funds</b>	<b>16,586.23</b>	<b>5,034.21</b>			<b>9,921.70</b>	<b>11,698.74</b>
<b>Total Primary Government</b>	<b>4,165,557.04</b>	<b>2,858,682.59</b>	<b>900,000.00</b>	<b>900,000.00</b>	<b>4,066,380.32</b>	<b>2,957,859.31</b>
<b>Discretely Presented Component Unit</b>						
Airport	164,313.93	196,665.49			113,475.77	247,503.65
<b>Total All Funds</b>	<b>4,329,870.97</b>	<b>3,055,348.08</b>	<b>900,000.00</b>	<b>900,000.00</b>	<b>4,179,856.09</b>	<b>3,205,362.96</b>



# 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 Parshall  
Parshall, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Parshall, Parshall, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated May 8, 2020.

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

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

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

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

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

May 8, 2020

CITY OF PARSHALL  
Parshall, North Dakota

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

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

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

\* Material weakness(es) identified?       Yes       No

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

Noncompliance Material to financial statements noted?       Yes       No

**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. 2019-001 Segregation of Duties

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

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

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

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

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

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

2. 2019-002 Financial Statement Preparation

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

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

*Cause:* The city feels 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 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.