

**CITY OF RICHARDTON
RICHARDTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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CITY OF RICHARDTON
CITY OFFICIALS (UNAUDITED)
DECEMBER 31, 2019

Tom Roll	Commission President
Kevin Remington	Commissioner
Jesse Aman	Commissioner
Mark Aman	Commissioner
Shannon Chambers	Commissioner
Marcy Kuntz	City Auditor

INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of Richardton
Richardton, North Dakota

Report on the Financial Statements

We have audited the accompanying statement of net position – cash basis, balance sheet – governmental funds – cash basis, and the statement of net position – proprietary funds – cash basis of the governmental activities, business activities, each major fund, and the aggregate remaining fund information of City of Richardton as of December 31, 2019, and we were engaged to audit the statement of activities – cash basis, statement of receipts, disbursements and changes in fund balance – governmental funds – cash basis, statement of receipts, disbursements and changes in fund net position – proprietary funds – cash basis, statement of cash flows – proprietary funds – cash basis, and the related notes to the financial statements for the year ended December 31, 2019, which collectively comprise the City of Richardton'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 cash basis of accounting described in Note 1; this includes determining that the 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 conducting 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. Because of the matter described in the Basis for Disclaimer of Opinions paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of activities – cash basis, statement of receipts, disbursements and changes in fund balance – governmental funds – cash basis, statement of receipts, disbursements and changes in fund net position – proprietary funds – cash basis, statement of cash flows – proprietary funds – cash basis and the related notes to the financial statements.

We conducted our audit of the statement of net position – cash basis, balance sheet – governmental funds – cash basis, and the statement of net position – proprietary funds – cash basis in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 these 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

Except for the matter described in the Basis for Disclaimer of Opinions paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Statement of Net Position – Cash Basis	Unmodified
Statement of Activities – Cash Basis	Disclaimer
Balance Sheet – Governmental Funds – Cash Basis	Unmodified
Statement of Receipts, Disbursements and Changes in Fund Balances – Governmental Funds – Cash Basis	Disclaimer
Statement of Net Position – Cash Basis – Proprietary Funds	Unmodified
Statement of Receipts, Disbursements and Changes in Fund Net Position – Proprietary Funds – Cash Basis	Disclaimer
Statement of Cash Flows – Proprietary Funds – Cash Basis	Disclaimer

Basis for Disclaimer of Opinions on Statement of Activities – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Balance – Governmental Funds – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Net Position – Proprietary Funds – Cash Basis and Statement of Cash Flows – Proprietary Funds – Cash Basis

The City of Richardton's fund balance did not reconcile to prior year financial records. As a result, significant adjustments were posted to current year receipts and expenditures in order to reconcile fund balances. In addition, the revenues and expenditures in total were not able to be reconciled back to cash activity.

Disclaimer of Opinions

Because of the significance of the matter described in the Basis for Disclaimer of Opinions on Statement of Activities – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Balance – Governmental Funds – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Net Position – Proprietary Funds – Cash Basis and Statement of Cash Flows – Proprietary Funds – Cash Basis paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions on the Statement of Activities – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Balance – Governmental Funds – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Net Position – Proprietary Funds – Cash Basis and Statement of Cash Flows – Proprietary Funds – Cash Basis of City of Richardton. Accordingly, we do not express opinions on the change in net position or its cash flows of the governmental activities, business type activities and each major fund.

Opinion on the Statement of Net Position – Cash Basis, Balance Sheet – Governmental Funds – Cash Basis and Statement of Net Position – Proprietary Funds – Cash Basis

In our opinion, the Statement of Net Position – Cash Basis, Balance Sheet – Governmental Funds – Cash Basis and the Statement of Net Position – Proprietary Funds – Cash Basis, referred to in the first paragraph presents fairly, in all material respects, the financial position of City of Richardton as of December 31, 2019, in accordance with 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 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

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the cash basis financial statements that collectively comprise City of Richardton’s basic financial statements. The budgetary information schedule and combining non-major fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary information schedule and combining non-major fund schedules 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 not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide an assurance on it.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2021 on our consideration of City of Richardton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Richardton's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Richardton's internal control over financial reporting and compliance.



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

November 1, 2021

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,349,955	\$ 733,535	\$ 3,083,490
Cash and cash equivalents - restricted	210,041	-	210,041
Internal balances	<u>16,553</u>	<u>(16,553)</u>	<u>-</u>
Total assets	<u>2,576,549</u>	<u>716,982</u>	<u>3,293,531</u>
NET POSITION			
Restricted:			
Debt service	581,047	-	581,047
Street	8,392	-	8,392
Business enhancement	52,575	-	52,575
Haliburton related expenses	103,275	-	103,275
Unrestricted	<u>1,831,260</u>	<u>716,982</u>	<u>2,548,242</u>
Total net position	<u>\$ 2,576,549</u>	<u>\$ 716,982</u>	<u>\$ 3,293,531</u>

See Notes to the Financial Statements

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

Functions/Programs	Cash Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 447,811	\$ 34,590	\$ -	\$ -	\$ (413,221)	\$ -	\$ (413,221)
Public works	42,920	-	19,279	160,000	136,359	-	136,359
Health and welfare	20,026	-	-	-	(20,026)	-	(20,026)
Culture and recreation	13,065	-	-	-	(13,065)	-	(13,065)
Capital improvements	400,841	-	-	-	(400,841)	-	(400,841)
Principal retirement	120,000	-	-	-	(120,000)	-	(120,000)
Interest and fiscal charges	37,075	-	-	-	(37,075)	-	(37,075)
Total governmental activities	<u>1,081,738</u>	<u>34,590</u>	<u>19,279</u>	<u>160,000</u>	<u>(867,869)</u>	<u>-</u>	<u>(867,869)</u>
Business-type activities:							
Water operating fund	172,089	256,999	-	-	-	84,910	84,910
Sewer operating fund	11,772	64,372	-	-	-	52,600	52,600
Garbage operating fund	<u>114,501</u>	<u>124,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,433</u>	<u>10,433</u>
Total business-type activities	<u>298,362</u>	<u>446,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,943</u>	<u>147,943</u>
Total primary government	<u>\$ 1,380,100</u>	<u>\$ 480,895</u>	<u>\$ 19,279</u>	<u>\$ 160,000</u>	<u>(867,869)</u>	<u>147,943</u>	<u>(719,926)</u>
General Receipts							
Taxes:							
Property taxes					207,659	-	207,659
Cigarette tax					1,393	-	1,393
Sales taxes					160,208	-	160,208
Highway tax					44,553	-	44,553
Oil and gas tax					247,624	-	247,624
State aid					46,631	-	46,631
Interest income					43,366	-	43,366
Miscellaneous					<u>75,886</u>	<u>-</u>	<u>75,886</u>
Total general receipts					<u>827,320</u>	<u>-</u>	<u>827,320</u>
Change in net position					(40,549)	147,943	107,394
Net position - January 1					<u>2,617,098</u>	<u>569,039</u>	<u>3,186,137</u>
Net position - December 31					<u>\$ 2,576,549</u>	<u>\$ 716,982</u>	<u>\$ 3,293,531</u>

See Notes to the Financial Statements

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

	General	Water, Sewer, and Lagoon	Non-Major Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 2,099,290	\$ 9,476	\$ 241,189	\$ 2,349,955
Cash and cash equivalents - restricted	103,275	106,766	-	210,041
Due from other funds	-	271,539	13,044	284,583
Total assets	<u>\$ 2,202,565</u>	<u>\$ 387,781</u>	<u>\$ 254,233</u>	<u>\$ 2,844,579</u>
LIABILITIES				
Due to other funds	<u>\$ 268,030</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,030</u>
FUND BALANCES				
Restricted	103,275	387,781	254,233	745,289
Unassigned	<u>1,831,260</u>	<u>-</u>	<u>-</u>	<u>1,831,260</u>
Total fund balances	<u>1,934,535</u>	<u>387,781</u>	<u>254,233</u>	<u>2,576,549</u>
Total liabilities and fund balances	<u>\$ 2,202,565</u>	<u>\$ 387,781</u>	<u>\$ 254,233</u>	<u>\$ 2,844,579</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE – CASH BASIS –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General	Water, Sewer, and Lagoon	Non-Major Governmental Funds	Total
RECEIPTS				
Taxes	\$ 452,111	\$ 116,711	\$ 92,615	\$ 661,437
Licenses, permits and fees	13,739	-	20,851	34,590
Intergovernmental	206,631	-	-	206,631
Interest income	43,366	-	-	43,366
Miscellaneous	22,444	-	72,721	95,165
Total receipts	<u>738,291</u>	<u>116,711</u>	<u>186,187</u>	<u>1,041,189</u>
DISBURSEMENTS				
Current:				
General government	447,811	-	-	447,811
Public works	-	-	42,920	42,920
Health and welfare	20,026	-	-	20,026
Culture and recreation	12,016	-	1,049	13,065
Capital improvements	400,841	-	-	400,841
Debt service:				
Principal retirement	-	100,000	20,000	120,000
Interest and fiscal charges	-	27,750	9,325	37,075
Total expenditures	<u>880,694</u>	<u>127,750</u>	<u>73,294</u>	<u>1,081,738</u>
Excess of receipts over (under) disbursements	(142,403)	(11,039)	112,893	(40,549)
Fund balance - January 1	<u>2,076,938</u>	<u>398,820</u>	<u>141,340</u>	<u>2,617,098</u>
Fund balance - December 31	<u>\$ 1,934,535</u>	<u>\$ 387,781</u>	<u>\$ 254,233</u>	<u>\$ 2,576,549</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF NET POSITION – CASH BASIS – PROPRIETARY FUNDS
DECEMBER 31, 2019

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
Cash and cash equivalents	\$ 403,803	\$ 263,086	\$ 66,646	\$ 733,535
Due from other funds	72,244	-	79,110	151,354
Total assets	<u>\$ 476,047</u>	<u>\$ 263,086</u>	<u>\$ 145,756</u>	<u>\$ 884,889</u>
LIABILITIES				
Due to other funds	\$ -	\$ 167,907	\$ -	\$ 167,907
NET POSITION				
Unrestricted	476,047	95,179	145,756	716,982
Total liabilities and net position	<u>\$ 476,047</u>	<u>\$ 263,086</u>	<u>\$ 145,756</u>	<u>\$ 884,889</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND NET POSITION
– CASH BASIS – PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Business-type Activities - Enterprise Funds</u>			Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	
OPERATING RECEIPTS				
Charges for sales and services:				
Water operations	\$ 251,642	\$ -	\$ -	\$ 251,642
Sewer operations	-	64,372	-	64,372
Garbage operations	-	-	124,934	124,934
Other operating receipts	5,357	-	-	5,357
Total operating receipts	<u>256,999</u>	<u>64,372</u>	<u>124,934</u>	<u>446,305</u>
OPERATING DISBURSEMENTS				
Water	172,089	-	-	172,089
Sewer	-	11,772	-	11,772
Garbage	-	-	114,501	114,501
Total operating disbursements	<u>172,089</u>	<u>11,772</u>	<u>114,501</u>	<u>298,362</u>
Change in net position	84,910	52,600	10,433	147,943
Net position - January 1	<u>391,137</u>	<u>42,579</u>	<u>135,323</u>	<u>569,039</u>
Net position - December 31	<u><u>\$ 476,047</u></u>	<u><u>\$ 95,179</u></u>	<u><u>\$ 145,756</u></u>	<u><u>\$ 716,982</u></u>

See Notes to the Financial Statements

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

	Business-type Activities - Enterprise Funds			Total Enterprise Funds
	Water	Garbage	Sewer	
<u>Cash flows from operating activities:</u>				
Receipts from customers	\$ 256,999	\$ 64,372	\$ 124,934	\$ 446,305
Payments to suppliers	(172,089)	(11,772)	(114,501)	(298,362)
Net cash provided (used) by operating activities	<u>84,910</u>	<u>52,600</u>	<u>10,433</u>	<u>147,943</u>
<u>Cash flows from noncapital financing activities:</u>				
Interfund loan for cash deficits	(72,244)	-	(79,110)	(151,354)
Interfund receipts	-	167,907	-	167,907
Net cash provided (used) by noncapital financing activities	<u>(72,244)</u>	<u>167,907</u>	<u>(79,110)</u>	<u>16,553</u>
Net change in cash and cash equivalents	12,666	220,507	(68,677)	164,496
Cash and cash equivalents, January 1	<u>391,137</u>	<u>42,579</u>	<u>135,323</u>	<u>569,039</u>
Cash and cash equivalents, December 31	<u>\$ 403,803</u>	<u>\$ 263,086</u>	<u>\$ 66,646</u>	<u>\$ 733,535</u>

See Notes to the Financial Statements

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Richardton, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Richardton is to maintain the accounting records on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City does not maintain capital asset records or related debt for the governmental and business-type activities. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. The Governmental 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.

As discussed further in the "Measurement Focus" and "Basis of Accounting" sections in Note 1, these financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

The accompanying financial statements present the activities of the City of Richardton. 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 would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. Based upon the application of these criteria, the City is not includable as a component unit within another reporting entity and the City does not have a component unit.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government of the City of Richardton. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange 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.

Water, Sewer, and Lagoon. This is a capital projects fund used to account for revenues received to pay off the Refunding Improvement bonds issued, the proceeds of the Refunding Improvement bonds, and costs of the Water and Sewer District #8 project.

The City reports the following major enterprise funds:

Water Fund. This fund is used to account for customer receipts for water fees and operating expenditures for water services.

Garbage Fund. This fund is used to account for customer receipts for garbage fees and operating expenditures for garbage services.

Sewer Fund. This fund is used to account for customer receipts for sewer fees and operating expenditures for sewer services.

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-type activities are presented using the economic resources measurement focus, within the limitations of the cash basis of accounting, as defined below.

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

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

- 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 expendable financial resources during a given period. These funds use fund balance as their measure of available expendable financial resources at the end of the period.
- b) The proprietary funds utilize 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 non-current, financial, or non-financial) associated with their activities are reported on a cash basis. Proprietary fund equity is classified as net position.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The City’s financial statements are prepared under the cash basis of accounting.

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

As a result of the use of this 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.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

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

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

The City does not have a minimum fund balance policy.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. However, since the statements are prepared on a cash basis, management does not consider there to be any significant estimates.

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

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budgetary Information

The City Commission adopts an annual budget on a basis consistent with the cash basis of accounting for the general fund, each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- On or before August 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing which is to be held after September 7 but before October 7, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue 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 proceedings of the board.
- All annual appropriations lapse at year-end.

Budget Amendments

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

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the General Fund by \$441,837 and in the Street Fund by \$28,420 during the year ended December 31, 2019. No remedial action is anticipated or required by the City regarding these excess expenditures.

NOTE 3 DEPOSITS

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.

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

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

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, irrevocable standby letters of credit issued by federal home loan banks of a rating of AA or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, 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 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 such other securities approved by the banking board.

The City maintains cash on deposit at a financial institution. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2019, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and authorized collateral through local financial institutions. \$3,055,448 of the City's deposits are covered by an irrevocable letter of credit held in the City's name as of December 31, 2019.

Credit Risk

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.
- (e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

As of December 31, 2019, the City had no investments.

Concentration of Credit Risk

The City does not have a limit on the amount the City may invest in any one issuer. The City does not have an investment policy that specifically addresses credit risk.

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

NOTE 4 CASH AND CASH EQUIVALENTS – RESTRICTED

The City has \$210,041 reported as cash and cash equivalents – restricted as of December 31, 2019, respectively. The amount is made up of \$103,275 of cash from Halliburton and \$106,766 of cash held in reserve as part of bond agreements. Cash received from Halliburton is restricted to use as follows: to cover expenses directly incurred by the City for legal counsel, engineering reports, and other costs associated with the zoning, annexation, roadway construction, and railway development issues. Cash held in reserve is restricted in use for principal and interest payment on the Sales Tax Revenue Bonds of 2013 and Refunding Improvement Bonds of 2014 if collections of sales tax and special assessments are not sufficient to make the payment.

NOTE 5 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 6 DUE TO/DUE FROM OTHER FUNDS

The due to and due from other funds consist of cash overdrafts and are as follows as of December 31, 2019:

<u>Fund</u>	<u>Due to Fund</u>	<u>Due from Fund</u>
Governmental Funds		
General	\$ 268,030	\$ -
Water, Sewer, and Lagoon	-	271,539
Nonmajor Governmental	-	13,044
Enterprise Funds		
Water	-	72,244
Sewer	167,907	-
Garbage	-	79,110
Total all funds	<u>\$ 435,937</u>	<u>\$ 435,937</u>

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

NOTE 7 LONG-TERM DEBT

Below is a summary of long-term debt owed by the City. This information is not included in the financial statements, as the financial statements are prepared on a cash basis.

During the year ended December 31, 2019, the following changes occurred in long-term debt:

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Sales Tax Revenue Bonds of 2013	\$ 320,000	\$ -	\$ 20,000	\$ 300,000	\$ 20,000
Refunding Improvement Bonds of 2014	<u>950,000</u>	<u>-</u>	<u>100,000</u>	<u>850,000</u>	<u>100,000</u>
Total	<u>\$1,270,000</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$1,150,000</u>	<u>\$ 120,000</u>

Long-term debt of the governmental activities at December 31, 2019 consisted of the following issues:

Sales Tax Revenue Bonds of 2013

\$400,000 sales tax revenue bonds series 2013 due in annual payments of \$20,000 through 2029 and \$25,000 annually through 2033. Interest payments are made semiannually in May and November with an annual interest rate of 2.85%.

The City is required to maintain a cash reserve in connection with the sales tax revenue bonds. The City is required to have an amount of at least the minimum of the following in reserve: 10% of the stated principal of the bond, the maximum annual principal and interest payment requirements of the bonds, or 125% of the average annual debt service requirements of the bond. There is currently \$20,000 shown as cash and cash equivalents – restricted on the basic financial statements to meet this requirement.

The City has an agreement in place with a developer who is to pay an annual \$18,644 payment, which includes interest of 4.50% to the City to help offset the costs through 2038.

Refunding Improvement Bonds of 2014

\$1,350,000 refunding improvement bonds due in annual payments ranging from \$95,000 to \$110,000 through 2028. Interest payments are made semiannually in May and November with an annual interest rate ranging from 0.50-4.00%.

The City is required to maintain a cash reserve in connection with the refunding improvement bonds revenue bonds. The City is required to have an amount of at least the minimum of the following in reserve: 10% of the stated principal of the bond, the maximum annual principal and interest payment requirements of the bonds, or 125% of the average annual debt service

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

requirements of the bond. There is currently \$106,766 shown as cash and cash equivalents – restricted on the basic financial statements to meet this requirement.

The principal maturities on debt for the years ending December 31st are as follows:

Year Ending December 31	Principal	Interest
2020	\$ 120,000	\$ 34,010
2021	120,000	31,610
2022	115,000	29,210
2023	115,000	26,293
2024	115,000	23,375
2025-2029	465,000	59,488
2030-2033	100,000	7,500
Total	\$1,150,000	\$ 211,486

NOTE 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Richardton pays an annual premium to NDIRF for its general liability, auto, and equipment insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability.

The City of Richardton 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 State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$119,900 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Richardton has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full time employee.

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

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

NOTE 9 FUND BALANCES

At December 31, 2019, a summary of the governmental fund balance classifications is as follows:

	General	Street	Water, Sewer, and Lagoon	Business Enhancement	Water/Sewer Extension	Total
Restricted for:						
Debt service	\$ -	\$ -	\$ 387,781	\$ -	\$ 193,266	\$ 581,047
Street	-	8,392	-	-	-	8,392
Business enhancement	-	-	-	52,575	-	52,575
Haliburton related expenses*	103,275	-	-	-	-	103,275
Unassigned	1,831,260	-	-	-	-	1,831,260
	<u>\$ 1,934,535</u>	<u>\$ 8,392</u>	<u>\$ 387,781</u>	<u>\$ 52,575</u>	<u>\$ 193,266</u>	<u>\$ 2,576,549</u>

* See Note 4 for further information regarding amounts restricted for Haliburton related expenses.

NOTE 10 NEW GASB PRONOUNCEMENTS

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

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

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

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

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

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

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

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

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

NOTE 11 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the City.

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

In June 2019, the City approved a contract for construction on Raider Road and E street. The total cost of the project was \$416,322, and it was completed in June 2020. Stark County and the City initially agreed to equally split the cost of the Raider Road portion of the project which totaled \$168,203, but Stark County ended up paying \$160,000 of the Raider Road costs.

In March 2020, the City approved a resolution for Street Improvement District 2020-1. In May 2021, the City financed the project with a \$7,000,000 loan from the Bank of North Dakota.

In May 2020, the City approved a contract for approximately \$450,000 for D street water main project. The project was completed in October 2020 and had a final total cost of \$455,336.

In October 2020, the City approved resolution No-15-2021 to raise sales taxes to 2.5%. It will take effect January 1, 2022.

In January 2021, the City co-signed a loan with the Richardton Housing Authority. In June 2021, the housing authority sold property in full satisfaction of the loan.

Subsequent events have been evaluated through November 1, 2021, which is the date these financial statements were available to be issued.

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
RECEIPTS				
Taxes	\$ -	\$ -	\$ 452,111	\$ 452,111
Licenses, permits and fees	9,700	9,700	13,739	4,039
Intergovernmental	39,300	39,300	206,631	167,331
Interest income	33,000	33,000	43,366	10,366
Miscellaneous	3,350	3,350	22,444	19,094
Total receipts	<u>85,350</u>	<u>85,350</u>	<u>738,291</u>	<u>652,941</u>
DISBURSEMENTS				
Current:				
General government	426,161	426,161	447,811	(21,650)
Public safety	12,696	12,696	-	12,696
Health and welfare	-	-	20,026	(20,026)
Culture and recreation	-	-	12,016	(12,016)
Capital improvements	-	-	400,841	(400,841)
Total disbursements	<u>438,857</u>	<u>438,857</u>	<u>880,694</u>	<u>(441,837)</u>
Excess of receipts and other sources over disbursements	<u>\$ (353,507)</u>	<u>\$ (353,507)</u>	(142,403)	<u>\$ 211,104</u>
Fund balance - January 1			<u>2,076,938</u>	
Fund balance - December 31			<u>\$ 1,934,535</u>	

CITY OF RICHARDTON
COMBINING BALANCE SHEET – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	<u>Street</u>	<u>Business Enhancement</u>	<u>Water/Sewer Extension</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,945	\$ 49,208	\$ 190,036	\$ 241,189
Cash and cash equivalents - restricted	-	-	-	-
Due from other funds	<u>6,447</u>	<u>3,367</u>	<u>3,230</u>	<u>13,044</u>
Total assets	<u>\$ 8,392</u>	<u>\$ 52,575</u>	<u>\$ 193,266</u>	<u>\$ 254,233</u>
LIABILITIES				
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES				
Restricted	8,392	52,575	193,266	254,233
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>8,392</u>	<u>52,575</u>	<u>193,266</u>	<u>254,233</u>
Total liabilities and fund balances	<u>\$ 8,392</u>	<u>\$ 52,575</u>	<u>\$ 193,266</u>	<u>\$ 254,233</u>

CITY OF RICHARDTON
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCE – CASH BASIS – NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Street</u>	<u>Business Enhancement</u>	<u>Water/Sewer Extension</u>	<u>Total</u>
RECEIPTS				
Taxes	\$ 44,553	\$ 8,010	\$ 40,052	\$ 92,615
Licenses, permits and fees	20,851	-	-	20,851
Miscellaneous	19,279	-	53,442	72,721
Total receipts	<u>84,683</u>	<u>8,010</u>	<u>93,494</u>	<u>186,187</u>
DISBURSEMENTS				
Current:				
Public works	42,920	-	-	42,920
Culture and recreation	-	1,049	-	1,049
Debt service:				
Principal retirement	-	-	20,000	20,000
Interest and fiscal charges	-	-	9,325	9,325
Total expenditures	<u>42,920</u>	<u>1,049</u>	<u>29,325</u>	<u>73,294</u>
Excess of receipts over (under) disbursements	41,763	6,961	64,169	112,893
Fund balance - January 1	<u>(33,371)</u>	<u>45,614</u>	<u>129,097</u>	<u>141,340</u>
Fund balance - December 31	<u>\$ 8,392</u>	<u>\$ 52,575</u>	<u>\$ 193,266</u>	<u>\$ 254,233</u>

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

To the City Commission
City of Richardton
Richardton, North Dakota

We were engaged to audit the statement of net position – cash basis, balance sheet – cash basis – governmental funds, and statement of net position – cash basis – proprietary funds, 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, of the City of Richardton, and have issued our report thereon dated November 1, 2021. Our report disclaims an opinion on the Statement of Activities – Cash Basis, Statement of Receipts, Disbursement and Changes in Fund Balance – Cash Basis – Governmental Funds, and Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis – Proprietary Funds, Statement of Cash Flows – Cash Basis – Proprietary Funds and the related notes to the financial statements because adequate documentation was not able to be obtained over receipts and disbursements to provide a basis for an audit opinion.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements listed in the first paragraph, we considered the City of Richardton's internal control over financial reporting (internal control) as a basis for designing 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 of Richardton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Richardton'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2019-001, 2019-002, 2019-003, 2019-004, and 2019-005 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Richardton'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 of Richardton's Responses to Findings

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

Purpose of this Report

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



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

November 1, 2021

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-001 Auditor Preparation of Financial Statements – Material Weakness

Criteria

An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America, as applied under the cash basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the board. However, the City currently does not prepare financial statements, including accompanying note disclosures, as required by the cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The auditing firm will continue to prepare yearly financial statements. January of 2019 to present- the City Auditor began providing the Commission financial statements including Balance Sheets, Payroll Reports, Bank Reconciliation Reports, Expenditure Reports, and Revenue Reports, including budget details.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-002 Segregation of Duties – Material Weakness

Criteria

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

Condition

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

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

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

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions

We continue to have only one Employee in charge of all office duties, we have taken action to utilize Commissioners to assist in reviewing reports, including Bank statements which are mailed directly from the Banking Institution to the Commissioners residence. Utility billing reports are reviewed at Commission meetings, including Profit and Loss details for garbage services.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-003 Journal Entries Proposed by Auditors – Material Weakness

Criteria

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

Condition

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

Cause

The City's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on the cash basis of accounting.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the cash basis of accounting prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the City reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions

Adjustments will continue to be made by auditing firm, when necessary. Periodic adjusting entries made by the City Auditor will be recorded and presented for review, to the auditing firm.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-004 Fund Balance / Net Position Reconciliation – Material Weakness

Criteria

Fund balances and net position for government wide activities and proprietary funds should be reconciled to amounts reported in prior year audited financial statements.

Condition

During our testing, adjustments were required to reconcile governmental fund balances, proprietary funds' net position, and government-wide net position. We noted approximately a \$19,000 reconciling difference that cannot be explained, which resulted in a disclaimer of opinion on the Statement of Activities – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Balance – Cash Basis – Governmental Funds, Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis – Proprietary Funds, and Statement of Cash Flows - Cash Basis - Proprietary Funds.

In addition, we performed extended procedures in our testing over cash and noted that total receipts and total disbursements per third party provided bank statements did not agree to the City's accounting records by approximately \$15,000.

Cause

Due to staff transition and prior audit entries not timely posted.

Effect

An opinion was not able to be provided on the Statement of Activities – Cash Basis, Statement of Receipts, Disbursements and Changes in Fund Balance – Cash Basis – Governmental Funds, Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis – Proprietary Funds, and Statement of Cash Flows – Cash Basis – Proprietary Funds.

Recommendation

We recommend City staff post all audit entries and timely reconciled fund balances and net position to audited financial statements.

Views of Responsible Officials and Planned Corrective Actions

City staff will post all audit entries and reconciled fund balances to audited financial statements.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-005 General Journal Entries – Material Weakness

Criteria

Adequate support and documentation for the necessity of general journal entries should be maintained by City personnel.

Condition

During our testing of general journal entries, adequate support nor documentation on the necessity for general journal entries was able to be provided.

Cause

The City had turnover in their accounting position and many accounts were not reconciled at the time of transition, which resulted in multiple general journal entries.

Effect

We were unable to obtain a thorough understanding of purpose for general journal entries or review support to substantiate why the general journal entry was posted.

Recommendation

We recommend the City adopt formal policies and procedures regarding the process and documentation maintenance for general journal entries.

Views of Responsible Officials and Planned Corrective Actions

The City has outlined the process of general journal entries in the City Auditor's job description.