



# NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

## City of Washburn

Washburn, North Dakota

Audit Report for the Year Ended December 31, 2019

*Client Code: PS28100*



Photo credit: North Dakota Tourism



Office of the  
State Auditor

# CITY OF WASHBURN

Table of Contents

For the Year Ended December 31, 2019

---

City Officials and Audit Personnel .....	1
Independent Auditor’s Report .....	2
Basic Financial Statements	
Statement of Net Position .....	4
Statement of Activities .....	5
Balance Sheet - Governmental Funds.....	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position .....	7
Statement of Expenditures and Changes in Fund Balances - Governmental Funds .....	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	9
Statement of Net Position - Proprietary Funds .....	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	11
Statement of Cash Flows - Proprietary Funds.....	12
Statement of Fiduciary Assets & Liabilities - Agency Funds .....	13
Notes to the Financial Statements.....	14
Required Supplementary Information	
Budgetary Comparison Schedules .....	22
Notes to the Required Supplementary Information .....	24
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.....	26
Summary of Auditor’s Results.....	28
Schedule of Audit Findings .....	29
Governance Communication .....	37

# CITY OF WASHBURN

City Officials and Audit Personnel  
December 31, 2019

---

## CITY OFFICIALS

Larry Thomas

President

Kit Baumann

Commissioner

Noelle Kroll

Commissioner

Kollin Syverson

Commissioner

Mike Herdt

Commissioner

Bryan Rothman

Superintendent

Ranie Price

City Auditor

## AUDIT PERSONNEL

Heath Erickson, CPA

Audit Manager

Alex Bakken, CPA

Audit In-Charge

STATE AUDITOR  
Joshua C. Gallion



PHONE  
701-328-2241  
FAX  
701-328-2345

[www.nd.gov/auditor](http://www.nd.gov/auditor)

STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. Boulevard Ave. Dept. 117  
Bismarck, North Dakota, 58505

[ndsao@nd.gov](mailto:ndsao@nd.gov)

---

## INDEPENDENT AUDITOR'S REPORT

---

Board of City Commissioners  
City of Washburn  
Washburn, North Dakota

### Report on the Financial Statements

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

### Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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 financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn, North Dakota, as of December 31, 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules* and *the notes to the required supplementary information* as reported in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2020 on our consideration of the City of Washburn's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Washburn's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Washburn's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
September 2, 2020

**CITY OF WASHBURN**

Statement of Net Position

December 31, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Library	Airport
<b>ASSETS</b>					
Cash and Investments	\$ 2,353,575	\$ 1,043,649	\$ 3,397,224	\$ 40,729	\$ 120,998
Utility Billings Receivable	-	53,588	53,588	-	-
Accounts Receivable	6,856	-	6,856	-	-
Intergovernmental Receivable	71,368	-	71,368	-	-
Due from County	5,787	-	5,787	-	-
Taxes Receivable	4,836	-	4,836	432	432
Special Assessments Receivable	7,282,352	-	7,282,352	-	-
Capital Assets, Net	11,138,471	9,854,053	20,992,524	-	1,480,090
<b>Total Assets</b>	<b>\$ 20,863,245</b>	<b>\$ 10,951,290</b>	<b>\$ 31,814,535</b>	<b>\$ 41,161</b>	<b>\$ 1,601,520</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 24,746	\$ 20,584	\$ 45,330	\$ -	\$ 20,900
Salaries and Benefits Payable	25,277	647	25,924	-	-
Prepaid Receipts	-	7,271	7,271	-	-
Interest Payable	50,697	12,076	62,773	-	-
Long-Term Liabilities					
Due Within One Year					
Long-Term Debt	757,561	245,000	1,002,561	-	-
Compensated Absences Payable	935	-	935	-	-
Due After One Year					
Long-Term Debt	8,068,479	2,170,000	10,238,479	-	-
Compensated Absences Payable	8,419	-	8,419	-	-
<b>Total Liabilities</b>	<b>\$ 8,936,114</b>	<b>\$ 2,455,578</b>	<b>\$ 11,391,692</b>	<b>\$ -</b>	<b>\$ 20,900</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	\$ 9,544,086	\$ 7,439,053	\$ 16,983,139	\$ -	\$ 1,480,090
Restricted					
Capital Projects	1,267,040	-	1,267,040	-	-
General Government	575,719	-	575,719	-	-
Public Works	558,076	-	558,076	-	-
Emergencies	22,143	-	22,143	-	-
Economic/Job Development	7,160	-	7,160	-	-
Culture and Recreation	-	-	-	41,161	-
Unrestricted	(47,093)	1,056,659	1,009,566	-	100,530
<b>Total Net Position</b>	<b>\$ 11,927,131</b>	<b>\$ 8,495,712</b>	<b>\$ 20,422,843</b>	<b>\$ 41,161</b>	<b>\$ 1,580,620</b>

The notes to the financial statements are an integral part of this statement.

# CITY OF WASHBURN

## Statement of Activities

For the Year Ended December 31, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Library	Airport
<b>PRIMARY GOVERNMENT</b>									
Governmental Activities									
General Government	\$ 580,754	\$ 27,961	\$ 13,435	\$ -	\$ (539,358)		\$ (539,358)		
Public Safety	158,829	-	-	-	(158,829)		(158,829)		
Public Works	440,652	-	389,731	324,507	273,586		273,586		
Culture and Recreation	7,742	-	-	-	(7,742)		(7,742)		
Interest & Fees on Long-Term Debt	284,621	-	-	-	(284,621)		(284,621)		
<b>Total Governmental Activities</b>	<b>\$ 1,472,598</b>	<b>\$ 27,961</b>	<b>\$ 403,166</b>	<b>\$ 324,507</b>	<b>\$ (716,964)</b>		<b>\$ (716,964)</b>		
Business-Type Activities									
Water	\$ 506,494	\$ 472,924	\$ -	\$ -	\$ -	\$ (33,570)	\$ (33,570)		
Sewer	71,496	142,052	-	-	-	70,556	-		
Garbage	94,560	96,796	-	-	-	2,236	-		
<b>Total Business-Type Activities</b>	<b>\$ 672,550</b>	<b>\$ 711,772</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,222</b>	<b>\$ (33,570)</b>		
<b>Total Primary Government</b>	<b>\$ 2,145,148</b>	<b>\$ 739,733</b>	<b>\$ 403,166</b>	<b>\$ 324,507</b>	<b>\$ (716,964)</b>	<b>\$ 39,222</b>	<b>\$ (750,534)</b>		
<b>COMPONENT UNITS</b>									
Library	\$ 21,519	\$ -	\$ 2,160	\$ -			\$ (19,359)		
Airport	116,904	7,067	56,462	-				(53,375)	
<b>Total Component Units</b>	<b>\$ 138,423</b>	<b>\$ 7,067</b>	<b>\$ 58,622</b>	<b>\$ -</b>			<b>\$ (19,359)</b>	<b>\$ (53,375)</b>	
<b>GENERAL REVENUES</b>									
Taxes									
Property Taxes					\$ 204,643	\$ -	\$ 204,643	\$ 18,663	\$ 17,456
Sales Taxes					299,058	-	299,058	-	-
Non-Restricted Grants and Contributions					356,943	-	356,943	-	-
Unrestricted Investment Earnings					10,711	-	10,711	137	-
Miscellaneous					48,893	-	48,893	5,904	-
<b>Total General Revenues and Transfers</b>					<b>\$ 920,248</b>	<b>\$ -</b>	<b>\$ 920,248</b>	<b>\$ 24,704</b>	<b>\$ 17,456</b>
<b>Changes in Net Position</b>					<b>\$ 203,284</b>	<b>\$ 39,222</b>	<b>\$ 242,506</b>	<b>\$ 5,345</b>	<b>\$ (35,919)</b>
<b>Net Position - January 1</b>					<b>\$ 11,723,847</b>	<b>\$ 8,456,490</b>	<b>\$ 20,180,337</b>	<b>\$ 35,816</b>	<b>\$ 1,616,539</b>
<b>Net Position - December 31</b>					<b>\$ 11,927,131</b>	<b>\$ 8,495,712</b>	<b>\$ 20,422,843</b>	<b>\$ 41,161</b>	<b>\$ 1,580,620</b>

The notes to the financial statements are an integral part of this statement.

# CITY OF WASHBURN

Balance Sheet – Governmental Funds  
December 31, 2019

	General Fund	Special Revenue Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 510,815	\$ 1,161,730	\$ 681,030	\$ -	\$ 2,353,575
Accounts Receivable	6,856	-	-	-	6,856
Intergovernmental Receivable	60,430	10,938	-	-	71,368
Due from County	1,718	-	-	4,069	5,787
Taxes Receivable	4,836	-	-	-	4,836
Special Assessments Receivable	-	-	-	7,282,352	7,282,352
Due from Other Funds	-	-	586,010	-	586,010
<b>Total Assets</b>	<b>\$ 584,655</b>	<b>\$ 1,172,668</b>	<b>\$ 1,267,040</b>	<b>\$ 7,286,421</b>	<b>\$ 10,310,784</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 24,746	\$ -	\$ -	\$ -	\$ 24,746
Salaries and Benefits Payable	25,061	216	-	-	25,277
Due to Other Funds	-	-	-	586,010	586,010
<b>Total Liabilities</b>	<b>\$ 49,807</b>	<b>\$ 216</b>	<b>\$ -</b>	<b>\$ 586,010</b>	<b>\$ 636,033</b>
<b>Deferred Inflows of Resources</b>					
Uncollected Taxes Receivable	\$ 4,836	\$ -	\$ -	\$ -	\$ 4,836
Uncollected Special Assessments Receivable	-	-	-	7,282,352	7,282,352
<b>Total Deferred Inflows of Resources</b>	<b>\$ 4,836</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,282,352</b>	<b>\$ 7,287,188</b>
<b>Total Liabilities &amp; Deferred Inflows of Resources</b>	<b>\$ 54,643</b>	<b>\$ 216</b>	<b>\$ -</b>	<b>\$ 7,868,362</b>	<b>\$ 7,923,221</b>
<b>Fund Balances</b>					
<b>Restricted</b>					
Capital Projects Funds	\$ -	\$ -	\$ 903,266	\$ -	\$ 903,266
General Government	-	579,234	-	-	579,234
Public Works/Streets	-	563,915	-	-	563,915
Emergency	-	22,143	-	-	22,143
Economic Development	-	7,160	-	-	7,160
<b>Assigned</b>					
Public Works/Streets	-	-	363,774	-	363,774
<b>Unassigned</b>					
General Fund	530,012	-	-	-	530,012
Negative Fund Balances	-	-	-	(581,941)	(581,941)
<b>Total Fund Balances</b>	<b>\$ 530,012</b>	<b>\$ 1,172,452</b>	<b>\$ 1,267,040</b>	<b>\$ (581,941)</b>	<b>\$ 2,387,563</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 584,655</b>	<b>\$ 1,172,668</b>	<b>\$ 1,267,040</b>	<b>\$ 7,286,421</b>	<b>\$ 10,310,784</b>

The notes to the financial statements are an integral part of this statement.



**CITY OF WASHBURN**

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position  
December 31, 2019

---

<b>Total Fund Balances for Governmental Funds</b>		\$ 2,387,563
Total <i>net position</i> reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,138,471
Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflow of resources in the funds.		
Property Taxes Receivable	\$ 4,836	
Special Assessments Receivable	<u>7,282,352</u>	7,287,188
Long-term liabilities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.		
Long-Term Debt	\$ (8,826,040)	
Interest Payable	(50,697)	
Compensated Absences	<u>(9,354)</u>	<u>(8,886,091)</u>
<b>Total Net Position of Governmental Activities</b>		<u>\$ 11,927,131</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
 For the Year Ended December 31, 2019

	General Fund	Special Revenue Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>					
Property Taxes	\$ 204,738	\$ -	\$ -	\$ -	\$ 204,738
Special Assessment Taxes	-	-	-	931,045	931,045
Sales Taxes	-	299,058	-	-	299,058
Licenses, Permits and Fees	15,344	-	-	-	15,344
Charges for Services	4,920	-	-	-	4,920
Intergovernmental	370,378	121,469	268,262	-	760,109
Fines, Forfeitures and Penalties	7,697	-	-	-	7,697
Interest	935	4,142	5,634	-	10,711
Miscellaneous	46,320	2,572	-	-	48,892
<b>Total Revenues</b>	<b>\$ 650,332</b>	<b>\$ 427,241</b>	<b>\$ 273,896</b>	<b>\$ 931,045</b>	<b>\$ 2,282,514</b>
<b>EXPENDITURES</b>					
Current					
General Government	\$ 428,009	\$ 91,645	\$ -	\$ -	\$ 519,654
Public Safety	180,636	-	-	-	180,636
Public Works	2,100	84,940	533,476	-	620,516
Debt Service					
Principal	-	-	-	770,000	770,000
Interest	-	-	-	259,373	259,373
Fees	-	-	-	21,067	21,067
<b>Total Expenditures</b>	<b>\$ 610,745</b>	<b>\$ 176,585</b>	<b>\$ 533,476</b>	<b>\$ 1,050,440</b>	<b>\$ 2,371,246</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 39,587	\$ 250,656	\$ (259,580)	\$ (119,395)	\$ (88,732)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	\$ -	\$ 285	\$ 1,411,151	\$ -	\$ 1,411,436
Transfers Out	-	(548,864)	(862,572)	-	(1,411,436)
<b>Total Other Financing Sources and Uses</b>	<b>\$ -</b>	<b>\$ (548,579)</b>	<b>\$ 548,579</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 39,587</b>	<b>\$ (297,923)</b>	<b>\$ 288,999</b>	<b>\$ (119,395)</b>	<b>\$ (88,732)</b>
Fund Balance - January 1	\$ 490,425	\$ 1,470,375	\$ 978,041	\$ (462,546)	\$ 2,476,295
Fund Balance - December 31	\$ 530,012	\$ 1,172,452	\$ 1,267,040	\$ (581,941)	\$ 2,387,563

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**

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

---

**Net Change in Fund Balances - Total Governmental Funds** \$ (88,732)

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.

Current Year Capital Outlay	\$ 563,384	
Capital Contribution	38,971	
Current Year Depreciation Expense	<u>(425,029)</u>	177,326

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

Net Change in Compensated Absences	\$ (5,526)	
Net Change in Interest Payable	<u>3,258</u>	(2,268)

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

Change in Bond Discount	\$ (7,439)	
Repayment of Long-Term Debt	<u>770,000</u>	762,561

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Change in Taxes Receivable	\$ (95)	
Net Change in Special Assessments Receivable	<u>(645,508)</u>	<u>(645,603)</u>

**Change in Net Position of Governmental Activities** \$ 203,284

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**Statement of Net Position – Proprietary Funds  
December 31, 2019

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Total
<b>ASSETS</b>				
Current Assets				
Cash and Investments	\$ 321,480	\$ 654,143	\$ 68,026	\$ 1,043,649
Utility Billings Receivable	34,539	11,348	7,701	53,588
Total Current Assets	<u>\$ 356,019</u>	<u>\$ 665,491</u>	<u>\$ 75,727</u>	<u>\$ 1,097,237</u>
Noncurrent Assets				
Capital Assets, Net	\$ 8,417,751	\$ 1,436,302	\$ -	\$ 9,854,053
Total Assets	<u>\$ 8,773,770</u>	<u>\$ 2,101,793</u>	<u>\$ 75,727</u>	<u>\$ 10,951,290</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts Payable	\$ 12,299	\$ 517	\$ 7,768	\$ 20,584
Salaries Payable	647	-	-	647
Prepaid Receipts	7,271	-	-	7,271
Interest Payable	9,509	2,567	-	12,076
Long-Term Debt	225,000	20,000	-	245,000
Total Current Liabilities	<u>\$ 254,726</u>	<u>\$ 23,084</u>	<u>\$ 7,768</u>	<u>\$ 285,578</u>
Noncurrent Liabilities				
Long-Term Debt	\$ 1,805,000	\$ 365,000	\$ -	\$ 2,170,000
Total Liabilities	<u>\$ 2,059,726</u>	<u>\$ 388,084</u>	<u>\$ 7,768</u>	<u>\$ 2,455,578</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	\$ 6,387,751	\$ 1,051,302	\$ -	\$ 7,439,053
Unrestricted	326,293	662,407	67,959	1,056,659
Total Net Position	<u>\$ 6,714,044</u>	<u>\$ 1,713,709</u>	<u>\$ 67,959</u>	<u>\$ 8,495,712</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**

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

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Total
<b>OPERATING REVENUES</b>				
Charges for Services	\$ 465,270	\$ 135,409	\$ 96,796	\$ 697,475
Miscellaneous	7,654	6,643	-	14,297
<b>Total Operating Revenues</b>	<b>\$ 472,924</b>	<b>\$ 142,052</b>	<b>\$ 96,796</b>	<b>\$ 711,772</b>
<b>OPERATING EXPENSES</b>				
Salaries and Wages	\$ 76,420	\$ 14,490	\$ -	\$ 90,910
Health Insurance	15,127	4,376	-	19,503
Utilities	24,354	6,672	-	31,026
Supplies, Maintenance, and Repairs	71,374	5,196	-	76,570
Contract	-	-	94,560	94,560
Other	5,334	-	-	5,334
Depreciation	271,826	30,770	-	302,596
<b>Total Operating Expenses</b>	<b>\$ 464,435</b>	<b>\$ 61,504</b>	<b>\$ 94,560</b>	<b>\$ 620,499</b>
Operating Income	\$ 8,489	\$ 80,548	\$ 2,236	\$ 91,273
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest Expense and Service Charges	\$ (42,059)	\$ (9,992)	\$ -	\$ (52,051)
Income (Loss) Before Contributions and Transfers	\$ (33,570)	\$ 70,556	\$ 2,236	\$ 39,222
Change in Net Position	\$ (33,570)	\$ 70,556	\$ 2,236	\$ 39,222
Net Position - January 1	\$ 6,747,614	\$ 1,643,153	\$ 65,723	\$ 8,456,490
Net Position - December 31	\$ 6,714,044	\$ 1,713,709	\$ 67,959	\$ 8,495,712

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**

Statement of Cash Flows – Proprietary Funds  
 For the Year Ended December 31, 2019

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 481,937	\$ 137,421	\$ 104,233	\$ 723,591
Payments to Suppliers	(115,655)	(11,868)	(94,560)	(222,083)
Payments to Employees	(91,398)	(18,865)	-	(110,263)
Other Receipts	7,654	6,642	-	14,296
Net Cash Provided (Used) by Operating Activities	<u>\$ 282,538</u>	<u>\$ 113,330</u>	<u>\$ 9,673</u>	<u>\$ 405,541</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal Paid on Capital Debt	\$ (220,000)	\$ (20,000)	\$ -	\$ (240,000)
Interest and Fees Paid on Capital Debt	(43,200)	(10,125)	-	(53,325)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (263,200)</u>	<u>\$ (30,125)</u>	<u>\$ -</u>	<u>\$ (293,325)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	<u>\$ 19,338</u>	<u>\$ 83,205</u>	<u>\$ 9,673</u>	<u>\$ 112,216</u>
Cash and Cash Equivalents - January 1	<u>\$ 302,142</u>	<u>\$ 570,938</u>	<u>\$ 58,353</u>	<u>\$ 931,433</u>
Cash and Cash Equivalents - December 31	<u>\$ 321,480</u>	<u>\$ 654,143</u>	<u>\$ 68,026</u>	<u>\$ 1,043,649</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>				
Operating Income (Loss)	<u>\$ 8,489</u>	<u>\$ 80,548</u>	<u>\$ 2,236</u>	<u>\$ 91,273</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 271,826	\$ 30,770	\$ -	\$ 302,596
Change in Assets and Liabilities				
Utility Billings Receivable	4,754	1,495	(330)	5,919
Salaries Payable	335	-	-	335
Accounts Payable	(2,480)	517	7,767	5,804
Unearned Revenue	(386)	-	-	(386)
Net Cash Provided (Used) by Operating Activities	<u>\$ 282,538</u>	<u>\$ 113,330</u>	<u>\$ 9,673</u>	<u>\$ 405,541</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF WASHBURN**Statement of Fiduciary Assets and Liabilities – Agency Funds  
December 31, 2019

---

**ASSETS**Cash and Cash Equivalents \$ 18,495**LIABILITIES**Due to Other Entities \$ 18,495

The notes to the financial statements are an integral part of this statement.

# CITY OF WASHBURN

Notes to the Financial Statements  
For the Year Ended December 31, 2019

---

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Washburn (“City”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 City’s accounting policies are described below.

### 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 such that exclusion would cause the City’s financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. 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 component units discussed below is included within the City’s reporting entity because of the significance of their operational or financial relationships with the City.

### Component Unit

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

*Discretely Presented Component Unit.* The component unit column in the basic financial statements includes the financial data of the City’s component units. These units are reported in separate columns to emphasize that it is legally separate from the City.

City of Washburn Airport. The City of Washburn Airport (“Airport”) governing board is appointed by the City’s governing body. The City’s governing body has the authority to disapprove, amend, or approve the Airport’s budget.

City of Washburn Library. The City of Washburn Library’s (“Library”) governing board is appointed by the City’s governing body. The City’s governing body has the authority to disapprove, amend, or approve the Library’s budget.

### Basis of Presentation

*Government-wide statements.* The statement of net position and the statement of activities display information about the City (primary government) and its component units. 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 non-exchange 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, interest, and non-restricted grants and contributions, 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.



## CITY OF WASHBURN

### Notes to the Financial Statements – Continued

---

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.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Debt Service Fund - This fund accounts for the costs of paying off the City's bond obligations. The major sources of revenues are special assessments.

Capital Projects Fund - This fund accounts for the costs of paying for the City's construction projects. The major sources of revenues are state grants/reimbursements.

The City reports the following major enterprise funds:

Water Fund - This fund accounts for the activity of the Water Department. The department operates the water distribution system in the City of Washburn.

Sewer Fund - This fund accounts for the activities of the City's sewer collection system.

Garbage Fund - This fund accounts for the activities of the City's garbage collection system.

Additionally, the City reports the following fund type:

*Agency Funds.* These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

**CITY OF WASHBURN**

Notes to the Financial Statements – Continued

---

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

**Cash and Investments**

Cash includes amounts in demand deposits and money market accounts.

The investments of the City during the year ended December 31, 2019 consist of certificates of deposit stated at cost with maturities in excess of three months.

**Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and garbage fund in the enterprise fund statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased 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.

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

<b>Assets</b>	<b>Years</b>
Buildings & Infrastructure	5 - 75
Vehicles and Machinery	5 - 20
Furniture and Equipment	5 - 30
Land & Land Improvements	Indefinite

**Compensated Absences**

Full time employees earn vacation benefits from eight to sixteen hours per month, depending on tenure with the City. Employees can carry over a maximum of 160 hours of vacation at December 31 of each year.

Upon termination of employment, employees will be paid for vacation benefits that have accrued based on their current rate of pay. Vested or accumulated vacation leave is reported in the general long-term debt account group. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Balance**

*Fund Balance Spending Policy.* It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the City to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

*Restricted Fund Balances.* Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3<sup>rd</sup> parties (state and federal governments for various grants & reimbursements).

*Assigned Fund Balances.* This classification reflects the amounts constrained by the City’s intent to be used for special purposes but are neither restricted nor committed. The city commission has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are

## CITY OF WASHBURN

### Notes to the Financial Statements – Continued

---

reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

*Unassigned Fund Balances.* Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

#### **Net Position**

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted state and federal grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund.

#### **Interfund Transactions**

In the governmental 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.

#### **NOTE 2: DEPOSITS**

##### **Credit Risk**

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution 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 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.

At year ended December 31, 2019, the City's carrying amount of deposits totaled \$3,435,911, and the bank balances totaled \$3,443,935. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2019, the Library's carrying amount of deposits totaled \$20,537, and the bank balances totaled \$20,537, all of which were covered by Federal Depository Insurance.

**CITY OF WASHBURN**

Notes to the Financial Statements – Continued

At year ended December 31, 2019, the Airport’s carrying amount of deposits and bank balances totaled \$120,998, all of which were covered by Federal Depository Insurance.

**NOTE 3: PROPERTY TAXES**

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 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.

**NOTE 4: CAPITAL ASSETS**

**Primary Government**

**Governmental Activities**

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

<b>Governmental Activities</b>	<b>Balance 1/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 12/31/19</b>
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 357,405	\$ 269,660	\$ -	\$ -	\$ 627,065
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 13,103,788	\$ 256,724	\$ -	\$ -	\$ 13,360,512
Machinery & Equipment	920,978	75,970	-	-	996,948
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 14,024,766</b>	<b>\$ 332,694</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,357,460</b>
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 3,004,333	\$ 362,965	\$ -	\$ -	\$ 3,367,298
Machinery & Equipment	416,692	62,064	-	-	478,756
<b>Total Accumulated Depreciation</b>	<b>\$ 3,421,025</b>	<b>\$ 425,029</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,846,054</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 10,603,741</b>	<b>\$ (92,335)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,511,406</b>
<b>Total Capital Assets, Net</b>	<b>\$ 10,961,146</b>	<b>\$ 177,325</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,138,471</b>

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

<b>Governmental Activities</b>	<b>2019</b>
General Government	\$ 55,574
Public Works	346,519
Public Safety	15,194
Culture and Recreation	7,742
<b>Total Depreciation Expense</b>	<b>\$ 425,029</b>

**Business-Type Activities**

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

<b>Business-Type Activities</b>	<b>Balance 1/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 12/31/19</b>
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 13,097,672	\$ -	\$ -	\$ -	\$ 13,097,672
Machinery & Equipment	66,674	-	-	-	66,674
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 13,164,346</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,164,346</b>
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,954,841	\$ 298,626	\$ -	\$ -	\$ 3,253,467
Machinery & Equipment	52,856	3,970	-	-	56,826
<b>Total Accumulated Depreciation</b>	<b>\$ 3,007,697</b>	<b>\$ 302,596</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,310,293</b>
<b>Total Capital Assets, Net</b>	<b>\$ 10,156,649</b>	<b>\$ (302,596)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,854,053</b>

Depreciation expense was charged to the unrestricted function.

**CITY OF WASHBURN**

Notes to the Financial Statements – Continued

**Discretely Presented Component Unit**

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

<b>Airport</b>	<b>Balance 1/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 12/31/19</b>
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ -	\$ 23,279	\$ -	\$ -	\$ 23,279
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 1,805,331	\$ -	\$ -	\$ -	\$ 1,805,331
Machinery & Equipment	108,954	-	-	-	108,954
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 1,914,285</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,914,285</b>
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 329,482	\$ 55,354	\$ -	\$ -	\$ 384,836
Machinery & Equipment	67,040	5,598	-	-	72,638
<b>Total Accumulated Depreciation</b>	<b>\$ 396,522</b>	<b>\$ 60,952</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 457,474</b>
<b>Total Capital Assets, Net</b>	<b>\$ 1,517,763</b>	<b>\$ (37,673)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,480,090</b>

Depreciation expense was charged to the unrestricted function.

**NOTE 5: LONG-TERM LIABILITIES**

**Primary Government**

**Governmental Activities**

The following changes occurred in long-term liabilities for the year ended 2019:

<b>Governmental Activities</b>	<b>Balance 1/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/19</b>	<b>Due Within One Year</b>
Long-Term Debt					
Special Assessment Bonds	\$ 9,670,000	\$ -	\$ 770,000	\$ 8,900,000	\$ 765,000
Bond Discount	(81,399)	-	(7,439)	(73,960)	(7,439)
<b>Total Long-Term Debt</b>	<b>\$ 9,588,601</b>	<b>\$ -</b>	<b>\$ 762,561</b>	<b>\$ 8,826,040</b>	<b>\$ 757,561</b>
Compensated Absences *	\$ 3,828	\$ 5,526	\$ -	\$ 9,354	\$ 935
<b>Total Long-Term Liabilities</b>	<b>\$ 9,592,429</b>	<b>\$ 5,526</b>	<b>\$ 762,561</b>	<b>\$ 8,835,394</b>	<b>\$ 758,496</b>

\* The change in compensated absences is shown as a net change due to changes in salary prohibit exact calculations.

**Business-Type Activities**

The following changes occurred in long-term liabilities for the year ended 2019:

<b>Business-Type Activities</b>	<b>Balance 1/1/19</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/19</b>	<b>Due Within One Year</b>
Long-Term Debt					
Revenue Bonds Payable	\$ 2,655,000	\$ -	\$ 240,000	\$ 2,415,000	\$ 245,000

**CITY OF WASHBURN**

Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2019 is as follows:

PRIMARY GOVERNMENT					
Governmental Activities				Business-Type Activities	
Year Ending December 31	Special Assessment Bonds Payable		Bond	Bonds Payable	
	Principal	Interest	Discount	Principal	Interest
2020	\$ 765,000	\$ 242,254	\$ (7,439)	\$ 245,000	\$ 36,225
2021	750,000	224,332	(7,439)	245,000	32,275
2022	750,000	205,247	(7,440)	250,000	28,325
2023	730,000	185,578	(6,844)	260,000	24,250
2024	705,000	125,133	(6,844)	260,000	20,025
2025 - 2029	2,640,000	584,007	(22,872)	860,000	53,625
2030 - 2034	1,825,000	250,370	(9,426)	235,000	20,500
2035 - 2039	735,000	33,220	(5,656)	60,000	1,200
Total	\$ 8,900,000	\$ 1,850,141	\$ (73,960)	\$ 2,415,000	\$ 216,425

**NOTE 6: TRANSFERS**

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

	2019	
	Transfers In	Transfers Out
<b>Governmental Funds</b>		
Special Revenue Fund	\$ 285	\$ 548,864
Capital Project Fund	1,411,151	862,572
Total Transfers	\$ 1,411,436	\$ 1,411,436

Transfers are done primarily for the following reasons:

- Transfer unrestricted revenues to finance various programs.
- Transfer money to help finance various construction projects.

**NOTE 7: RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$4,000,000 per occurrence for general liability and for automobile, and \$1,565,054 for public assets (mobile equipment and portable property).

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 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 North Dakota Workforce Safety and Insurance.

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

**CITY OF WASHBURN**

Notes to the Financial Statements – Continued

**NOTE 8: PENSION PLAN**

The City’s employees are provided retirement benefits under a defined contribution money purchase plan with John Hancock Life Insurance company and American Funds. The City is only responsible for current contributions. All full-time employees of the City are provided similar benefits. The employer contributes 6.12% of eligible compensation. The employer’s portion was \$11,704, \$8,242, and \$14,692 for the years ending December 31, 2019, 2018, and 2017 respectively.

**NOTE 9: DEFICIT FUND BALANCES**

The City had the following deficit fund balances at December 21, 2019:

	<b>2019</b>
<b>Debt Service Fund</b>	
Special Assessment Fund	\$ (581,941)

The City plans to eliminate these deficits with future revenue collections, transfers from other funds, or through a rebonding of special assessments.

**NOTE 10: COMMITMENTS**

**Discretely Presented Component Unit**

The Airport had the following commitments at December 21, 2019:

Project	Original Contract	Total Completed	Retainage	Remaining Balance includes Retainages	% Complete
Airport Layout Plan Update	158,942	123,712	-	35,230	77.83%
Design Fuel System and Fueling Apron	66,288	23,279	-	43,009	35.12%
<b>Total</b>	<b>\$ 225,230</b>	<b>\$ 146,991</b>	<b>\$ -</b>	<b>\$ 78,239</b>	<b>65.26%</b>

**NOTE 11: SUBSEQUENT EVENTS**

On August 3, 2020 the City approved the resolution providing for the sale of \$1,725,000 refunding improvement bonds, Series 2020.

**CITY OF WASHBURN**

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Property Taxes	\$ 210,331	\$ 210,331	\$ 204,738	\$ (5,593)
Licenses, Permits and Fees	18,910	18,910	15,344	(3,566)
Charges for Services	2,500	2,500	4,920	2,420
Intergovernmental	313,333	313,333	370,378	57,045
Fines, Forfeitures and Penalties	8,500	8,500	7,697	(803)
Interest	1,600	1,600	935	(665)
Miscellaneous	9,700	9,700	46,320	36,620
<b>Total Revenues</b>	<b>\$ 564,874</b>	<b>\$ 564,874</b>	<b>\$ 650,332</b>	<b>\$ 85,458</b>
<b>EXPENDITURES</b>				
Current				
General Government	\$ 476,467	\$ 476,467	\$ 428,009	\$ 48,458
Public Safety	180,636	180,636	180,636	-
Public Works	19,000	19,000	2,100	16,900
<b>Total Expenditures</b>	<b>\$ 676,103</b>	<b>\$ 676,103</b>	<b>\$ 610,745</b>	<b>\$ 65,358</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (111,229)	\$ (111,229)	\$ 39,587	\$ 150,816
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	\$ (32,610)	\$ (32,610)	\$ -	\$ 32,610
<b>Net Change in Fund Balances</b>	<b>\$ (143,839)</b>	<b>\$ (143,839)</b>	<b>\$ 39,587</b>	<b>\$ 183,426</b>
Fund Balances - January 1	\$ 490,425	\$ 490,425	\$ 490,425	\$ -
Fund Balances - December 31	\$ 346,586	\$ 346,586	\$ 530,012	\$ 183,426

The accompanying required supplementary information notes are an integral part of this schedule.



**CITY OF WASHBURN**

Budgetary Comparison Schedule - Special Revenue Fund  
 For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Sales Tax	\$ 240,000	\$ 240,000	\$ 299,058	\$ 59,058
Intergovernmental	105,000	105,000	121,469	16,469
Interest Income	4,514	4,514	4,142	(372)
Miscellaneous	800	800	2,572	1,772
<b>Total Revenues</b>	<b>\$ 350,314</b>	<b>\$ 350,314</b>	<b>\$ 427,241</b>	<b>\$ 76,927</b>
<b>EXPENDITURES</b>				
Current				
General Government	\$ 82,687	\$ 82,687	\$ 91,645	\$ (8,958)
Public Works	104,938	104,938	84,940	19,998
<b>Total Expenditures</b>	<b>\$ 187,625</b>	<b>\$ 187,625</b>	<b>\$ 176,585</b>	<b>\$ 11,040</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ 162,689	\$ 162,689	\$ 250,656	\$ 87,967
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	\$ -	\$ -	\$ 285	\$ 285
Transfers Out	(296,200)	(296,200)	(548,864)	(252,664)
<b>Total Other Financing Sources and Uses</b>	<b>\$ (296,200)</b>	<b>\$ (296,200)</b>	<b>\$ (548,579)</b>	<b>\$ (252,379)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (133,511)</b>	<b>\$ (133,511)</b>	<b>\$ (297,923)</b>	<b>\$ (164,412)</b>
Fund Balances - January 1	\$ 1,470,375	\$ 1,470,375	\$ 1,470,375	\$ -
Fund Balances - December 31	\$ 1,336,864	\$ 1,336,864	\$ 1,172,452	\$ (164,412)

The accompanying required supplementary information notes are an integral part of this schedule.

# CITY OF WASHBURN

Notes to the Required Supplementary Information  
For the Year Ended December 31, 2019

---

## NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

The governing board adopts an annual budget on a basis consistent with GAAP, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 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:

- The governing body of each municipality, annually or before September tenth, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. The governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

**CITY OF WASHBURN**

Schedule of Fund Activity - Cash Basis - Continued

---

**NOTE 2: EXPENDITURES IN EXCESS OF BUDGET**

During fiscal year 2019, the City had the following fund expenditures in excess of budgeted amounts:

2019	Expenditures/Transfers Out		
	Budget	Actual	Overspent
Special Revenue Fund	\$ 483,825	\$ 725,449	\$ (241,624)

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



---

**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

Board of City Commissioners  
City of Washburn  
Washburn, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Washburn's basic financial statements, and have issued our report thereon dated September 2, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Washburn'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 of Washburn's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Washburn'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 audit findings* as items 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006, 2019-007, and 2019-008 that we consider to be material weaknesses.

**CITY OF WASHBURN**

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* - Continued

---

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Washburn’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of audit findings* as item 2018-006.

**City of Washburn’s Response to Findings**

The City of Washburn’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. The City of Washburn’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 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.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
September 2, 2020

**CITY OF WASHBURN**

Summary of Auditor's Results  
For the Year Ended December 31, 2019

---

**Financial Statements**

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

**Internal control over financial reporting**

Material weaknesses identified?	<u>  X  </u> Yes	<u>      </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u>      </u> Yes	<u>  X  </u> None Noted
Noncompliance material to financial statements noted?	<u>  X  </u> Yes	<u>      </u> None Noted

# **CITY OF WASHBURN**

Schedule of Audit Findings

For the Year Ended December 31, 2019

---

## **2019-001 – FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS**

### **Condition**

The City of Washburn currently does not prepare the financial statements, including various adjusting entries and accompanying note disclosures, as required by generally accepted accounting principles (GAAP). Thus, management has elected to have the auditors assist in the preparation of the financial statements and note disclosures.

### **Criteria**

The City of Washburn is responsible for the preparation of its annual financial statements and related note disclosures to ensure they are reliable, accurate, free of material misstatement, and in accordance with GAAP.

### **Cause**

Management chose not to allocate City of Washburn's resources for preparation of the financial statements.

### **Effect**

This increases the risk of material misstatement of the City Washburn's financial statements.

### **Repeat Finding**

Yes.

### **Recommendation**

We recommend the City of Washburn 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.

### **City of Washburn's Response**

Agree. The City of Washburn is aware that there is a risk having the State Auditor's Office prepare and approve our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

**2019-002 – LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS**

**Condition**

The City of Washburn and the related component units have limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipt disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

**Criteria**

Proper internal control according to the COSO framework include controls surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements. The framework dictates there should be sufficient accounting personnel so that duties of employees are properly segregated. Proper segregation of duties would provide better control over the assets of the City of Washburn and the related component units.

**Cause**

Management has chosen to allocate its economic resources to other functions of the City of Washburn and related component units.

**Effect**

Limited segregation of duties exposes the City of Washburn and the component units to risk of loss of assets, potential liabilities, and damage to the reputation, whether due to error or fraud.

**Repeat Finding**

Yes.

**Recommendation**

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

**City of Washburn’s Response**

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the City of Washburn and related component units.



**2019-003 – IMPROPER FUND TRANSFERS – MATERIAL WEAKNESS**

**Condition**

In 2019, audit adjustments of the net amount of \$701,627 needed to be reclassified to transfers in and \$782,810 needed to be reclassified to transfers out. The City of Washburn was misclassifying transfers as miscellaneous revenues and expenses in the Capital Project Fund.

**Criteria**

The City of Washburn reports the financial statements under Generally Accepted Accounting Principles, which requires revenues, expenditures, and transfers to be properly reported and free from material misstatement.

**Cause**

Management made erroneous adjusting journal entries when they setup various capital project funds. Management also used the miscellaneous revenue and expenditures codes for transferring monies between City bank accounts.

**Effect**

The financial statements would have been materially misstated if they were not corrected.

**Repeat Finding**

Yes.

**Recommendation**

We recommend that the City of Washburn appropriately use the general ledger transfer accounts when recording transfers between funds. We further recommend that the City ensure that the bank transfers are recorded properly in its general ledger.

**City of Washburn's Response**

Agree. The City has already taken steps to reduce the usage of the miscellaneous expense and revenue line items.

**2019-004 – MISCELLANEOUS REVENUE ADJUSTMENTS – MATERIAL WEAKNESS**

**Condition**

\$268,262 in revenue from the State Water Commission was misclassified as miscellaneous revenue instead of classified as intergovernmental revenue.

**Criteria**

The City of Washburn is responsible for ensuring its financial statements, including revenues, are reliable, accurate, free of material misstatement, and in accordance with Generally Accepted Accounting Principles (GAAP).

**Cause**

The City of Washburn, at times, may be unaware of the which revenues should be classified as Intergovernmental Revenues and Miscellaneous Revenues.

**Effect**

The financial statements would have been materially misstated if they were not corrected.

**Repeat Finding**

No.

**Recommendation**

We recommend that the City of Washburn prepare and review revenue entries to ensure proper classification by type to accurately present the financial statements, in accordance with GAAP.

**City of Washburn’s Response**

Agree. The City will try to properly classify miscellaneous revenue going forward.

**2019-005 – SPECIAL ASSESSMENT REPORTING – MATERIAL WEAKNESS**

**Condition**

The City of Washburn’s special assessment fund has been steadily decreasing in the past few years. As of the end of 2019, the fund reports a negative balance of \$760,323.

**Criteria**

Management of the City of Washburn is responsible for establishing proper internal control over the City’s activities to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with the GAAP basis of accounting.

**Cause**

The City of Washburn may not have ensured that the appropriate amount of special assessment bonds were levied and collected for the appropriate payments in relation to these bonds.

**Effect**

The special assessment fund will continue to decrease and the issues surrounding special assessments may create a material liability for the City of Washburn if the appropriate corrective action is not taken.

**Repeat Finding**

Yes.

**Recommendation**

We recommend that the City of Washburn address its special assessment deficiencies and review its procedures regarding special assessment issuances.

**City of Washburn’s Response**

Agree. The City of Washburn has refunded the 2013 Bond and bought down some of the interest.

**2019-006 – SPECIAL ASSESSMENT VIOLATIONS – MATERIAL WEAKNESS & MATERIAL NON-COMPLIANCE**

**Condition**

The City of Washburn did not appropriately create a separate fund for each special assessment bond that has been issued.

**Criteria**

N.D.C.C. 40-24-18 states, "All special assessments and taxes levied and other revenues pledged under the provisions of this title to pay the cost of an improvement shall constitute a fund for the payment of such cost, including all principal of and interest on warrants and other obligations issued by the municipality to finance the improvement, and shall be diverted to no other purpose. The city auditor shall hold all moneys received for any such fund as a special fund to be applied to payment for the improvement. Each such fund shall be designated by the name and number of the improvement district in or for which said special assessments, taxes, and revenues are collected. When all principal and interest on warrants and other obligations of the fund have been fully paid, all moneys remaining in a fund may be transferred into the general fund of the municipality".

**Cause**

Management was unaware they were required to create a separate fund for each individual bond issuance at the time of issuance.

**Effect**

This may be a violation of Century Code 40-24-18 as well as various bond agreement covenants which state that the bond payments should be made out of the corresponding bond fund. Not having separate bond funds created increases the risk of material misstatement due to fraud or error.

**Repeat Finding**

Yes.

**Recommendation**

We recommend that the City of Washburn create funds for each outstanding special assessment to ensure compliance with NDCC 40-24-18.

**City of Washburn's Response**

Agree. The City is looking at setting up new accounts to accurately account for all specials.

**2019-007 – POST DATED TRANSACTIONS – MATERIAL WEAKNESS**

**Condition**

The City of Washburn inappropriately included \$89,588 of expenditures in the improper accounting period.

**Criteria**

Management of the City of Washburn is responsible for establishing proper internal control over the City's activities to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with the GAAP basis of accounting.

**Cause**

The first check register run of 2020 was included in the 2019 general ledger which resulted in the improper cutoff of the year-end financial statements.

**Effect**

The financial statements may have been materially misstated without the proposed audit adjustments. Furthermore, 2019 and 2020 expenditures would have been overstated and understated by \$89,588, respectively.

**Repeat Finding**

No.

**Recommendation**

We recommend that the City of Washburn ensure that its financial statements are properly cutoff in accordance with GAAP.

**City of Washburn's Response**

Agree. The City will cutoff in accordance to GAAP.

**2019-008 – CONFLICT OF INTEREST – MATERIAL WEAKNESS**

**Condition**

During the review of the City of Washburn board meeting minutes, it was noted that possible conflicts of interest may have occurred involving immediate family of board members without recuse.

**Criteria**

N.D.C.C. §44-04-22 states "A person acting in a legislative or quasi-legislative or judicial or quasi-judicial capacity for a political subdivision of the state who has a direct and substantial personal or pecuniary interest in a matter before the board, council, commission, or other body, must disclose the fact to the body of which the person is a member, and may not participate in or vote on that particular matter without the consent of a majority of the rest of the body."

**Cause**

The City of Washburn may not have adequate procedures in place to handle a higher risk of conflict of interests that may occur.

**Effect**

The City of Washburn may be in violation of N.D.C.C. §44-04-22.

**Repeat Finding**

No.

**Recommendation**

We recommend the City of Washburn educate staff and board members as to what constitutes a conflict of interest to ensure compliance with N.D.C.C. §44-04-22. We further recommend the City of Washburn review procedures with the City's attorney to address a higher risk of potential conflicts of interest.

**City of Washburn's Response**

Agree. The City will address these concerns with the city attorney and update policies as needed.

STATE AUDITOR  
Joshua C. Gallion



PHONE  
701-328-2241

FAX  
701-328-2345

[www.nd.gov/auditor](http://www.nd.gov/auditor)

STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR  
STATE CAPITOL  
600 E. Boulevard Ave. Dept. 117  
Bismarck, North Dakota, 58505

[ndsao@nd.gov](mailto:ndsao@nd.gov)

---

## GOVERNANCE COMMUNICATION

---

Board of City Commissioners  
City of Washburn  
Washburn, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn, North Dakota, for the year ended December 31, 2019 which collectively comprise the City of Washburn's basic financial statements, and have issued our report thereon dated September 2, 2020. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance**

As stated in our engagement letter dated April 17, 2020, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Washburn's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Washburn's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

### **Significant Accounting Policies/Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Washburn are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2019. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
<b><u>Governmental Funds</u></b>						
<b>General Fund</b>						
<u>Record Various Types of Receivables</u>						
Intergovernmental Receivable	-		60,430		60,430	
Accounts Receivable	-		6,856		6,856	
Due From County	-		1,718		1,718	
Revenue		-		69,004		69,004
<u>Record Salaries &amp; Benefits Payable</u>						
Expenditure	-		1,056		1,056	
Fund Balance	-		28,652		28,652	
Salaries Payable		-		1,056		1,056
Benefits Payable		-		28,652		28,652
<u>Reclass Cash to Accounts Payable</u>						
Cash	-		24,746		24,746	
Accounts Payable		-		24,746		24,746
<u>Remove Expenditures</u>						
Cash	-		54,588		54,588	
Expenditures		-		54,588		54,588
<b>Special Revenue Fund</b>						
<u>Record Intergovernmental Receivables</u>						
Intergovernmental Receivable	-		10,938		10,938	
Revenue		-		10,938		10,938
<u>Record Salaries &amp; Remove Retirement Liability</u>						
Expenditure	-		216		216	
Retirement Liability	-		17,851		17,851	
Fund Balance		-		17,851		17,851
Salaries Payable		-		216		216
<u>Remove Expenditures</u>						
Cash	-		35,000		35,000	
Expenditures		-		35,000		35,000
<b>Debt Service Fund</b>						
<u>Record Due from County Amounts</u>						
Due From County	-		4,069		4,069	
Revenue		-		4,069		4,069
<b>Capital Projects Fund</b>						
<u>Remove Revenue &amp; Transfers Out</u>						
Revenue	-		16,762		16,762	
Transfers Out		-		16,762		16,762
<u>Remove Expenditures &amp; Transfers In</u>						
Transfers In	-		23,780		23,780	
Expenditures		-		23,780		23,780
<u>Reclass Miscellaneous Revenue to Intergovernmental Revenue</u>						
Miscellaneous Revenue	-		268,262		268,262	
Intergovernmental Revenue		-		268,262		268,262
<u>Reclass Revenue to Transfers In and Reclass Negative Revenue to Transfers Out</u>						
Miscellaneous Revenue	-		285,024		285,024	
Transfers Out	-		285,024		285,024	
Transfers In		-		285,024		285,024
Miscellaneous Revenue		-		285,024		285,024
<u>Reclass Expenditures to Transfers Out and Reclass Negative Expenditures to Transfers In</u>						
Transfer Out	-		514,199		514,199	
Expenditures	-		440,035		440,035	
Expenditures		-		514,199		514,199
Transfers In		-		440,035		440,035



**CITY OF WASHBURN**  
 Governance Communication - Continued

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
<b>Enterprise Funds</b>						
<b>Water Fund</b>						
<u>To Record Client Utility Billing Receivables</u>						
Utility Billing Receivable	34,539		-		34,539	
Revenue		34,539		-		34,539
<u>To Reclass Cash to Accounts Payable</u>						
Cash	-		12,299		12,299	
Accounts Payable		-		12,299		12,299
<b>Sewer Fund</b>						
<u>To Record Client Utility Billing Receivables</u>						
Utility Billing Receivable	11,348		-		11,348	
Revenue		11,348		-		11,348
<u>To Reclass Cash to Accounts Payable</u>						
Cash	-		517		517	
Accounts Payable		-		517		517
<b>Garbage Fund</b>						
<u>To Record Client Utility Billing Receivables</u>						
Utility Billing Receivable	7,701		-		7,701	
Revenue		7,701		-		7,701
<u>To Reclass Cash to Accounts Payable</u>						
Cash	-		7,768		7,768	
Accounts Payable		-		7,768		7,768
<b>Component Units</b>						
<b>Airport</b>						
<u>To Reclass Accounts Payable</u>						
Expenditures	-		20,900		20,900	
Accounts Payable		-		20,900		20,900

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated September 2, 2020.

**Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**CITY OF WASHBURN**

Governance Communication - Continued

---

**Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of City Commissioners and management of the City of Washburn, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the City of Washburn for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of Washburn.

/S/

Joshua C. Gallion  
State Auditor

Bismarck, North Dakota  
September 2, 2020



Office of the  
State Auditor

NORTH DAKOTA STATE AUDITOR  
JOSHUA C. GALLION

**NORTH DAKOTA STATE AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505