

# **AUDIT REPORT**

CITY OF MADDOCK  
Maddock, North Dakota

For the Year Ended December 31, 2020

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

CITY OF MADDOCK  
Maddock, North Dakota

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For the Year Ended December 31, 2020

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CITY OF MADDOCK  
Maddock, North Dakota

CITY OFFICIALS

Larry Summers	Mayor
Alex Ertelt	Council Member
Chad Geller	Council Member
Ansel Hakanson	Council Member
Frank Rodriguez	Council Member
Pamala Lee	Auditor

# Rath & Mehler, P.C.

Certified Public Accountants

Jayson Rath, CPA  
Ken Mehler, CPA  
Bryce Fischer, CPA  
Todd Goehring, CPA

*Specializing in Governmental Auditing*

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Maddock  
Maddock, North Dakota

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Maddock, Maddock, North Dakota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Maddock, Maddock, North Dakota, as of December 31, 2020, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## Basis of Accounting

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

## Other Matters

### Other Information

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

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2021 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 12, 2021

CITY OF MADDOCK  
Maddock, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Maddock Business and Tech. Center
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	1,419,138.17	1,951,739.50	3,370,877.67	54,501.74
Capital Assets (net of accumulated depreciation):				
Land	28,215.00	42,285.00	70,500.00	
Buildings and Infrastructure	2,956,289.00	1,335,379.00	4,291,668.00	
Vehicles and Machinery	76,644.00		76,644.00	
Total Capital Assets	3,061,148.00	1,377,664.00	4,438,812.00	
Total Assets	4,480,286.17	3,329,403.50	7,809,689.67	54,501.74
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions	53,565.00		53,565.00	
<b>Liabilities:</b>				
Long-Term Liabilities:				
Due Within One Year:				
Capital Lease Payable	9,133.82		9,133.82	
Community Facilities Loan Payable	6,016.42		6,016.42	
Special Assessment Bonds Payable	105,000.00		105,000.00	
Revenue Bonds Payable		25,000.00	25,000.00	
Due After One Year:				
Capital Lease Payable	9,380.42		9,380.42	
Community Facilities Loan Payable	163,285.90		163,285.90	
Special Assessment Bonds Payable	1,335,000.00		1,335,000.00	
Revenue Bonds Payable		255,000.00	255,000.00	
Net Pension Liability	102,017.00		102,017.00	
Total Liabilities	1,729,833.56	280,000.00	2,009,833.56	
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Changes in Resources Related to Pensions	91,010.00		91,010.00	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	1,433,331.44	1,097,664.00	2,530,995.44	
Restricted for:				
Special Purposes	1,469,309.50		1,469,309.50	
Unrestricted	(189,633.33)	1,951,739.50	1,762,106.17	54,501.74
Total Net Position	2,713,007.61	3,049,403.50	5,762,411.11	54,501.74

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

CITY OF MADDOCK  
Maddock, North Dakota

Statement of Activities - Modified Cash Basis  
December 31, 2020

	Net (Expense) Revenue and Changes in Net Position						Component Unit  Maddock Business and Tech. Center
	Program Revenues		Primary Government			Total	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities		
<b>Functions/Programs</b>							
<b>Primary Government</b>							
<u>Governmental Activities:</u>							
General Government	64,966.72	1,368.00		(63,598.72)		(63,598.72)	
Public Safety	6,900.00			(6,900.00)		(6,900.00)	
Streets and Public Works	267,041.93		45,839.31	(221,202.62)		(221,202.62)	
Culture and Recreation	14,395.60			(14,395.60)		(14,395.60)	
Urban and Economic Development	31,030.26			(31,030.26)		(31,030.26)	
Other	48,042.74			(48,042.74)		(48,042.74)	
Interest on Long-Term Debt	46,487.89		131,591.87	85,103.98		85,103.98	
<b>Total Governmental Activities</b>	<b>478,865.14</b>	<b>1,368.00</b>	<b>177,431.18</b>	<b>(300,065.96)</b>		<b>(300,065.96)</b>	-
<u>Business-Type Activities:</u>							
Light Operating	531,485.20	719,983.66			188,498.46	188,498.46	-
Water	141,888.72	109,797.11			(32,091.61)	(32,091.61)	-
Sewer	54,876.87	61,690.98			6,814.11	6,814.11	-
Garbage	90,856.39	90,186.96			(669.43)	(669.43)	-
Water Meters	6.66	11,831.40			11,824.74	11,824.74	-
<b>Total Business-Type Activities</b>	<b>819,113.84</b>	<b>993,490.11</b>	-		<b>174,376.27</b>	<b>174,376.27</b>	-
<b>Total Primary Government</b>	<b>1,297,978.98</b>	<b>994,858.11</b>	<b>177,431.18</b>	<b>(300,065.96)</b>	<b>174,376.27</b>	<b>(125,689.69)</b>	-
<b>Component Unit:</b>							
Maddock Business and Tech Center	65,419.95						65,419.95
<u>General Revenues:</u>							
<u>Taxes:</u>							
Property taxes; levied for general purposes				87,912.37		87,912.37	
Property taxes; levied for special purposes				74,483.76		74,483.76	
City sales taxes				100,256.73		100,256.73	
Telecommunication taxes				1,719.86		1,719.86	
Cigarette taxes				1,006.22		1,006.22	
Intergovernmental revenue not restricted to specific programs				30,071.18		30,071.18	
Lawsuit Recovery				866,151.37		866,151.37	
Earnings on investments and other revenue				79,730.56	7,335.66	87,066.22	68,914.56
<b>Total General Revenues</b>				<b>1,241,332.05</b>	<b>7,335.66</b>	<b>1,248,667.71</b>	<b>68,914.56</b>
Change in Net Position				941,266.09	181,711.93	1,122,978.02	(3,494.61)
Net Position - January 1				1,771,741.52	2,867,691.57	4,639,433.09	57,996.35
Net Position - December 31				<b>2,713,007.61</b>	<b>3,049,403.50</b>	<b>5,762,411.11</b>	<b>54,501.74</b>

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



CITY OF MADDOCK  
Maddock, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2020

	Major Funds			Total	
	General	Street Improvement Project - 2016	Other Governmental Funds		Governmental Funds
	-	-	-		-
<b><u>ASSETS:</u></b>					
Cash, Cash Equivalents and Investments		918,432.19	500,705.98	1,419,138.17	
Interfund Receivables		260,832.20		260,832.20	
<b>Total Assets</b>	-	1,179,264.39	500,705.98	1,679,970.37	
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>Liabilities:</u></b>					
Interfund Payables	72,797.50		188,034.70	260,832.20	
<b><u>Fund Balances:</u></b>					
Restricted for:					
General Government			93,594.35	93,594.35	
Streets and Public Works			35,507.49	35,507.49	
Airport			153,344.27	153,344.27	
Emergency			6,614.41	6,614.41	
City Share of Special Assessment			984.59	984.59	
Debt Service		1,179,264.39		1,179,264.39	
Assigned to:					
Special Projects			64,644.55	64,644.55	
State Aid			146,016.32	146,016.32	
Unassigned	(72,797.50)		(188,034.70)	(260,832.20)	
<b>Total Fund Balances</b>	(72,797.50)	1,179,264.39	312,671.28	1,419,138.17	
<b>Total Liabilities and Fund Balances</b>	-	1,179,264.39	500,705.98	1,679,970.37	

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



CITY OF MADDOCK  
Maddock, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2020

Total Fund Balances for Governmental Funds 1,419,138.17

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

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

Cost of Capital Assets	4,105,990.00	
Less Accumulated Depreciation	<u>(1,044,842.00)</u>	
Net Capital Assets		3,061,148.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	53,565.00	
Total Deferred Inflows of Resources	<u>(91,010.00)</u>	
Net Deferred Outflows/Inflows of Resources		<u>(37,445.00)</u>

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2020 are:

Capital Lease Payable	(18,514.24)	
Community Facilities Loan Payable	(169,302.32)	
Special Assessment Bonds Payable	(1,440,000.00)	
Net Pension Liability	<u>(102,017.00)</u>	
Total Long-Term Liabilities		<u>(1,729,833.56)</u>

Total Net Position of Governmental Activities 2,713,007.61

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

CITY OF MADDOCK  
Maddock, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2020

	Major Funds			Total Governmental Funds
	General	Street Improvement Project - 2016	Other Governmental Funds	
<u>Revenues:</u>				
Taxes	89,451.53		188,484.56	277,936.09
Special Assessments		118,028.50		118,028.50
Licenses, Permits and Fees	1,368.00			1,368.00
Intergovernmental	30,468.27		46,448.44	76,916.71
Lawsuit Recovery		866,151.37		866,151.37
Miscellaneous	27,240.68	314.88	52,175.00	79,730.56
<b>Total Revenues</b>	<b>148,528.48</b>	<b>984,494.75</b>	<b>287,108.00</b>	<b>1,420,131.23</b>
<u>Expenditures:</u>				
Current:				
General Government	45,662.72			45,662.72
Public Safety	6,900.00			6,900.00
Streets and Public Works	159,242.27		44,006.66	203,248.93
Culture and Recreation	400.00		13,995.60	14,395.60
Urban and Economic Development			31,030.26	31,030.26
Other			19,644.74	19,644.74
Capital Outlay			11,385.00	11,385.00
Debt Service:				
Principal		105,000.00	21,567.81	126,567.81
Interest and Service Charges		37,401.25	9,086.64	46,487.89
<b>Total Expenditures</b>	<b>212,204.99</b>	<b>142,401.25</b>	<b>150,716.71</b>	<b>505,322.95</b>
<b>Net Changes in Fund Balances</b>	<b>(63,676.51)</b>	<b>842,093.50</b>	<b>136,391.29</b>	<b>914,808.28</b>
Fund Balance - January 1	(9,120.99)	337,170.89	176,279.99	504,329.89
<b>Fund Balance - December 31</b>	<b>(72,797.50)</b>	<b>1,179,264.39</b>	<b>312,671.28</b>	<b>1,419,138.17</b>

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

CITY OF MADDOCK  
Maddock, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2020

Net Change in Fund Balances - Total Governmental Funds	914,808.28
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	11,385.00	
Current Year Depreciation Expense	<u>(106,020.00)</u>	(94,635.00)

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

Debt Proceeds	-	
Repayment of Debt	<u>126,567.81</u>	126,567.81

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

Net Increase in Pension Expense	<u>(5,475.00)</u>
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Change in Net Position of Governmental Activities	<u><u>941,266.09</u></u>
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The accompanying notes are an integral part of these financial statements.



CITY OF MADDOCK  
Maddock, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2020

	Major Enterprise Funds				Other Enterprise Fund	Total Enterprise Funds
	Light Operating	Water	Sewer	Garbage		
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents	1,649,555.39	10,115.50		108,145.73	183,922.88	1,951,739.50
Interfund Receivables	80,695.46					80,695.46
<b>Total Current Assets</b>	<b>1,730,250.85</b>	<b>10,115.50</b>	-	<b>108,145.73</b>	<b>183,922.88</b>	<b>2,032,434.96</b>
<b>Noncurrent Assets:</b>						
Capital Assets (net of accumulated depreciation):						
Land		16,035.00	15,000.00	11,250.00		42,285.00
Buildings and Infrastructure	58,000.00	126,756.00	1,129,468.00	21,155.00		1,335,379.00
<b>Total Noncurrent Assets</b>	<b>58,000.00</b>	<b>142,791.00</b>	<b>1,144,468.00</b>	<b>32,405.00</b>	-	<b>1,377,664.00</b>
<b>Total Assets</b>	<b>1,788,250.85</b>	<b>152,906.50</b>	<b>1,144,468.00</b>	<b>140,550.73</b>	<b>183,922.88</b>	<b>3,410,098.96</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Interfund Payables			80,695.46			80,695.46
Revenue Bonds Payable			25,000.00			25,000.00
<b>Total Current Liabilities</b>	-	-	<b>105,695.46</b>	-	-	<b>105,695.46</b>
<b>Noncurrent Liabilities:</b>						
Revenue Bonds Payable			255,000.00			255,000.00
<b>Total Liabilities</b>	-	-	<b>360,695.46</b>	-	-	<b>360,695.46</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	58,000.00	142,791.00	864,468.00	32,405.00	-	1,097,664.00
Unrestricted	1,730,250.85	10,115.50	(80,695.46)	108,145.73	183,922.88	1,951,739.50
<b>Total Net Position</b>	<b>1,788,250.85</b>	<b>152,906.50</b>	<b>783,772.54</b>	<b>140,550.73</b>	<b>183,922.88</b>	<b>3,049,403.50</b>

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

CITY OF MADDOCK  
Maddock, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2020

	Major Enterprise Funds				Other Enterprise Fund	Total Enterprise Funds
	Light Operating	Water	Sewer	Garbage		
<b>Operating Revenues:</b>						
<b>Charges for Sales and Services:</b>						
Electrical Sales	719,983.66					719,983.66
Water Sales		109,797.11				109,797.11
Water Surcharge					11,831.40	11,831.40
Sewer Charges			19,720.60			19,720.60
Sewer Assessments			41,970.38			41,970.38
Garbage Collections				89,124.96		89,124.96
Recycle Sales				1,062.00		1,062.00
<b>Total Operating Revenues</b>	<b>719,983.66</b>	<b>109,797.11</b>	<b>61,690.98</b>	<b>90,186.96</b>	<b>11,831.40</b>	<b>993,490.11</b>
<b>Operating Expenses:</b>						
Salaries and Benefits	83,224.22	58,509.68	2,420.07	14,612.99		158,766.96
Purchased Power	383,584.68	2,547.00				386,131.68
Operations Repair and Maintenance	48,820.32	44,190.17	4,784.21	661.92		98,456.62
Office Supplies and Expense	12,211.59	1,932.64	1,685.55	1,232.31		17,062.09
Chemicals		22,929.45	442.00			23,371.45
Garbage Contract				68,820.04		68,820.04
Miscellaneous	1,644.39	4,246.78	168.04	4,609.13	6.66	10,675.00
Depreciation	2,000.00	7,533.00	36,377.00	920.00		46,830.00
<b>Total Operating Expenses</b>	<b>531,485.20</b>	<b>141,888.72</b>	<b>45,876.87</b>	<b>90,856.39</b>	<b>6.66</b>	<b>810,113.84</b>
<b>Operating Income (Loss)</b>	<b>188,498.46</b>	<b>(32,091.61)</b>	<b>15,814.11</b>	<b>(669.43)</b>	<b>11,824.74</b>	<b>183,376.27</b>
<b>Non-Operating Revenues (Expenses):</b>						
Interest Income		563.84			2,120.59	2,684.43
Miscellaneous Revenues	4,586.25	64.98				4,651.23
Interest and Service Charges			(9,000.00)			(9,000.00)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>4,586.25</b>	<b>628.82</b>	<b>(9,000.00)</b>	<b>-</b>	<b>2,120.59</b>	<b>(1,664.34)</b>
<b>Changes in Net Position</b>	<b>193,084.71</b>	<b>(31,462.79)</b>	<b>6,814.11</b>	<b>(669.43)</b>	<b>13,945.33</b>	<b>181,711.93</b>
<b>Net Position - January 1</b>	<b>1,595,166.14</b>	<b>184,369.29</b>	<b>776,958.43</b>	<b>141,220.16</b>	<b>169,977.55</b>	<b>2,867,691.57</b>
<b>Net Position - December 31</b>	<b>1,788,250.85</b>	<b>152,906.50</b>	<b>783,772.54</b>	<b>140,550.73</b>	<b>183,922.88</b>	<b>3,049,403.50</b>

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

CITY OF MADDOCK  
Maddock, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year ended December 31, 2020

	Major Enterprise Funds				Other Enterprise Fund	Total Enterprise Funds
	Light Operating	Water	Sewer	Garbage		
<u>Cash flows from operating activities:</u>						
Receipts from customers	719,983.66	109,797.11	61,690.98	90,186.96	11,831.40	993,490.11
Payments to suppliers	(446,260.98)	(75,846.04)	(7,079.80)	(75,323.40)	(6.66)	(604,516.88)
Payments to employees	(83,224.22)	(58,509.68)	(2,420.07)	(14,612.99)		(158,766.96)
Net cash provided (used) by operating activities	190,498.46	(24,558.61)	52,191.11	250.57	11,824.74	230,206.27
<u>Cash flows from noncapital financing activities:</u>						
Miscellaneous receipts	4,586.25	64.98				4,651.23
Interfund loan transaction	23,191.11		(23,191.11)			-
Net cash provided (used) by noncapital financing activities	27,777.36	64.98	(23,191.11)	-	-	4,651.23
<u>Cash flows from capital and related financing activities:</u>						
Principal payment on revenue bonds			(20,000.00)			(20,000.00)
Interest and service charges			(9,000.00)			(9,000.00)
Net cash provided (used) by capital and related financing activities	-	-	(29,000.00)	-	-	(29,000.00)
<u>Cash flows from investing activities:</u>						
Interest income		563.84			2,120.59	2,684.43
Net increase in cash and cash equivalents	218,275.82	(23,929.79)	-	250.57	13,945.33	208,541.93
Cash and cash equivalents, January 1	1,431,279.57	34,045.29	-	107,895.16	169,977.55	1,743,197.57
Cash and cash equivalents, December 31	1,649,555.39	10,115.50	-	108,145.73	183,922.88	1,951,739.50
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>						
Operating income (Loss)	188,498.46	(32,091.61)	15,814.11	(669.43)	11,824.74	183,376.27
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>						
Depreciation expense	2,000.00	7,533.00	36,377.00	920.00	-	46,830.00
Net cash provided (used) by operating activities	190,498.46	(24,558.61)	52,191.11	250.57	11,824.74	230,206.27

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



CITY OF MADDOCK  
Maddock, North Dakota

Notes to the Financial Statements  
December 31, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, the component unit discussed below is included within the city's reporting entity because of the significance of their operational or financial relationship with the city.

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

**Maddock Business & Technology Center:** The city owns the Business and Technology Center. Debt on the Business & Technology Center is ultimately the responsibility of the city. The city has no oversight over the manager and has requested the Business & Technology Center be included as a component unit of the city.

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

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

*Street Improvement Project – 2016.* This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2016.

The city reports the following major enterprise funds:

*Light Operating:* This fund accounts for the purchase and distribution of electric power throughout the city.

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

*Sewer.* This fund is used to account for the activities of the city's sewer collection system.

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

### C. Measurement Focus and Basis of Accounting

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

#### Measurement Focus

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

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



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

#### Basis of Accounting

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

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

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

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

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

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

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



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

Buildings and Infrastructure	40 to 75 years
Machinery and Vehicles	7 to 20 Years

#### F. Compensated Absences

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

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

#### G. Long-Term Obligations

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

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

#### H. Pension

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

#### I. Fund Equity

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

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

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

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

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

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

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

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

- Committed
- Assigned
- Unassigned

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

#### J. Interfund Transactions

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

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

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

#### K. Use of Estimates

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



Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2020 the city's carrying amount of deposits was \$3,370,877 and the bank balance was \$3,374,769. Of the bank balance, \$500,000 was covered by Federal Depository Insurance. The remaining balance of \$2,874,769 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31 2020, the city held certificates of deposit in the amount of \$1,066,124, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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



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

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

**Note 4 INTERFUND RECEIVABLES/PAYABLES**

Interfund receivables/payables are created by a negative cash balance in various funds. The amount shown as interfund payables represents the amount of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2020 are as follows:

	Receivable Fund	Payable Fund
Street Improvement Project - 2016	260,832.20	
General Fund		72,797.50
Municipal Highway		105,032.22
Library		83,002.48
Light Operating	80,695.46	
Sewer		80,695.46

**Note 5 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Balance July 1	Increases	Decreases	Balance June 30
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	28,215			28,215
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,808,600			3,808,600
Machinery and Vehicles	267,790	11,385	10,000	269,175
Total	4,076,390	11,385	10,000	4,077,775
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	769,429	82,882		852,311
Machinery and Vehicles	179,393	23,138	10,000	192,531
Total	948,822	106,020	10,000	1,044,842
Total capital assets being depreciated, net	3,127,568	(94,635)		3,032,933
Governmental Activities Capital Assets, Net	3,155,783	(94,635)	-	3,061,148

	Balance July 1	Increases	Decreases	Balance June 30
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	42,285			42,285
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,024,090			3,024,090
Machinery and Vehicles	31,649			31,649
Total	<u>3,055,739</u>	-	-	<u>3,055,739</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,641,881	46,830		1,688,711
Machinery and Vehicles	31,649			31,649
Total	<u>1,673,530</u>	<u>46,830</u>	-	<u>1,720,360</u>
Total capital assets being depreciated, net	<u>1,382,209</u>	<u>(46,830)</u>		<u>1,335,379</u>
Governmental Activities Capital Assets, Net	<u>1,424,494</u>	<u>(46,830)</u>	-	<u>1,377,664</u>

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

<u>Governmental Activities:</u>	
General Government	13,829
Streets and Public Works	63,793
Other	28,398
Total	<u>106,020</u>
<u>Business-type Activities:</u>	
Light Operating	7,533
Water	2,000
Sewer	36,377
Garbage	920
Total	<u>46,830</u>

**Note 6** CAPITAL LEASE PAYABLE

The city has entered into the following lease agreement:

\$44,500.00 lease-purchase of a Caterpillar Skid Steer, due in annual installments of \$9,633.70 through January 18, 2022; payments include interest at 2.7%.

18,514.24

This lease agreement qualifies as a capital lease for accounting purposes (title transfers at the end of the lease term). The following is a schedule of the future minimum lease payments under this capital lease, and the net present value of the minimum lease payments at December 31, 2020:

	Year Ending December 31	Governmental Activities Lease Payments
	2021	9,633.70
	2022	9,633.70
Total minimum lease payments		19,267.40
Less: amount representing interest		(753.16)
Present value of future minimum lease payments		<u>18,514.24</u>

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2020, the following changes occurred in liabilities reported in the long-term liabilities of the city:

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Capital Lease	27,408		8,894	18,514	9,134
Bank Loan Payable	6,769		6,769		
Comm. Fac. Loan Payable	175,208		5,905	169,303	6,016
Special Assessment Bonds	1,545,000		105,000	1,440,000	110,000
Total	<u>1,754,385</u>	-	<u>126,568</u>	<u>1,627,817</u>	<u>125,150</u>

Business-type Activities

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds	<u>300,000</u>		<u>20,000</u>	<u>280,000</u>	<u>25,000</u>

Outstanding debt at December 31, 2020 consists of the following:

Governmental Activities:

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2020, is as follows:

Community Facilities Loan Payable. The city has received a Rural Development loan through the United States Department of Agriculture for the construction of an office building.

\$250,000 Rural Development loan, due in an initial payment of \$20,358.26, annual installments of \$14,039.64 through May, 2038 and a final payment of \$5,872.35 on May 3, 2039; payments include interest at 4.75%.

169,302.32



The annual requirements to amortize the outstanding community facilities loan payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	6,016.42	8,077.22
2022	6,308.50	7,785.14
2023	6,614.77	7,478.87
2024	6,935.90	7,157.74
2025	7,272.63	6,821.01
2026 - 2030	42,014.71	28,453.49
2031 - 2035	53,252.92	17,215.28
2036 - 2039	40,886.47	3,788.58
Total	<u>169,302.32</u>	<u>86,777.33</u>

Special Assessment Bonds. The city has issued special assessment bonds to provide funds for the construction and/or improvement of streets. Special assessment bonds outstanding at December 31, 2020 are as follows:

\$1,750,000.00 Refunding Improvement Bonds of 2016, due in annual installments of \$105,000.00 to \$140,000.00 through May 1, 2032; interest is at 1.25% to 3%.	<u>1,440,000.00</u>
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The annual requirements to amortize the outstanding special assessment bonds are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	105,000.00	34,731.25
2022	110,000.00	32,850.00
2023	110,000.00	30,925.00
2024	110,000.00	28,725.00
2025	115,000.00	26,193.75
2026 - 2030	615,000.00	85,675.00
2031 - 2032	275,000.00	8,325.00
Total	<u>1,440,000.00</u>	<u>247,425.00</u>

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2020, are as follows:

\$444,151.00 Sewer Revenue Bonds, Series 2012, due in annual installments of \$15,000.00 to \$30,000.00 through September 1, 2031; interest is at 2.5%.	<u>280,000.00</u>
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The annual requirements to amortize the outstanding revenue bonds are as follows:

2021	25,000.00	7,000.00
2022	25,000.00	6,375.00
2023	25,000.00	5,750.00
2024	25,000.00	5,125.00
2025	25,000.00	4,500.00
2026 - 2030	140,000.00	12,750.00
2031	15,000.00	375.00
Total	<u>280,000.00</u>	<u>41,875.00</u>

Note 8 DEFICIT FUND BALANCES

The following funds had a deficit balance at December 31, 2020:

General Fund	(72,797.50)
<u>Special Revenue Funds</u>	
Municipal Highway	(105,032.22)
Library	(83,002.48)
<u>Enterprise Fund</u>	
Sewer	(80,695.46)

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDRF for its general liability, automobile and public assets insurance coverage. The coverage by NDRF is limited to losses of \$5,000,000 per occurrence for general liability and automobile; and \$303,524 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$824,542 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

## Note 10 PENSION PLAN

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

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

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

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

#### **Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55 – 64 with three or more years of service.

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

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

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

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section,



the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

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

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

### **Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

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

- 1 to 12 months of service -  
Greater of one percent of monthly salary or \$25
  
- 13 to 24 months of service -  
Greater of two percent of monthly salary or \$25
  
- 25 to 36 months of service -  
Greater of three percent of monthly salary or \$25
  
- Longer than 36 months of service -  
Greater of four percent of monthly salary or \$25

### **Pension Liabilities, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2020, the City of Maddock reported a liability of \$102,017 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2019 the city's proportion was .008704 percent, which was a decrease of .004361 from its proportion measured as of June 30, 2018.

For the year ended December 31, 2020, the city recognized pension expense of \$13,643. At December 31, 2020 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	61	18,514
Changes in assumptions	38,121	32,730
Net difference between projected and actual earnings on pension plan investments	1,777	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,872	39,766
City contributions subsequent to the measurement date (see below)	<u>6,734</u>	<u>-</u>
Total	<u><u>53,565</u></u>	<u><u>91,010</u></u>

\$6,374 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021.

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

Year ended June 30:	
2020	(1,578)
2021	(5,977)
2022	(12,599)
2023	(18,604)
2024	(5,421)
Thereafter	-

**Actuarial assumptions.** The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	Service at Beginning of Year	Increase Rate
	0	15.00%
	1	10.00%
	2	8.00%
	Age *	
	Under 30	10.00%
	30 - 39	7.50%
	40 - 49	6.75%
	50 - 59	6.50%
	60+	5.25%



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

Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2019 funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2019. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund’s target asset allocation are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Equity Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	0.00%

**Discount rate.** For PERS, GASB No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension

plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

**Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate.** The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Rate (7.50%)	1% Increase (8.50%)
The city's proportionate share of the net pension liability	146,271	102,017	64,837

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

**Note 11** OTHER POSTEMPLOYMENT BENEFITS

The city is required to implement GASB Statement No. 75, Accounting and Financial Reporting of Postemployment Benefits Other Than Pensions. The effect of this statement is not material to the city's financial statements.

**Note 12** TAX ABATEMENTS

The city has not entered into any tax abatement agreements that would reduce the city's tax revenues for the year ended December 31, 2020.

CITY OF MADDOCK  
Maddock, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	83,100.00	83,100.00	89,451.53	6,351.53
Licenses, Permits and Fees	3,100.00	3,100.00	1,368.00	(1,732.00)
Intergovernmental	32,050.00	32,050.00	30,468.27	(1,581.73)
Charges for Services	60.00	60.00		(60.00)
Miscellaneous	8,800.00	8,800.00	27,240.68	18,440.68
<b>Total Revenues</b>	<b>127,110.00</b>	<b>127,110.00</b>	<b>148,528.48</b>	<b>21,418.48</b>
<u>Expenditures:</u>				
Current:				
General Government	91,500.00	91,500.00	45,662.72	45,837.28
Public Safety	7,200.00	7,200.00	6,900.00	300.00
Streets and Public Works	100,000.00	100,000.00	159,242.27	(59,242.27)
Culture and Recreation	400.00	400.00	400.00	-
<b>Total Expenditures</b>	<b>199,100.00</b>	<b>199,100.00</b>	<b>212,204.99</b>	<b>(13,104.99)</b>
<b>Net Change in Fund Balances</b>	<b>(71,990.00)</b>	<b>(71,990.00)</b>	<b>(63,676.51)</b>	<b>8,313.49</b>
<b>Fund Balance - January 1</b>	<b>(9,120.99)</b>	<b>(9,120.99)</b>	<b>(9,120.99)</b>	
<b>Fund Balance - December 31</b>	<b>(81,110.99)</b>	<b>(81,110.99)</b>	<b>(72,797.50)</b>	<b>8,313.49</b>



CITY OF MADDOCK  
Maddock, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the city's budget during the year ended December 31, 2020.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following fund for the year ended December 31, 2020:

General Fund	13,104.99
<u>Special Revenue Funds</u>	
City Share of Special Assessments	11,887.32

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

CITY OF MADDOCK  
Maddock, North Dakota

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

	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.008704%	0.013065%	0.012966%	0.012632%	0.011163%	0.009689%
City's proportionate share of the net pension liability	102,017	220,486	208,406	123,111	75,906	61,498
City's covered employee payroll	113,147	134,220	132,365	127,300	114,052	81,618
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	90.16%	164.27%	157.45%	96.71%	66.55%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	71.60%	62.80%	61.98%	70.46%	77.15%	77.70%

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

	2020	2019	2018	2017	2016	2015
Statutorily required contribution	8,056	9,556	9,424	9,064	8,120	5,388
Contributions in relation to the statutorily required contributions	(8,056)	(9,556)	(9,424)	(9,064)	(8,120)	(5,388)
Contribution deficiency (excess)	0	0	0	0	0	0
City's covered-employee payroll	113,147	134,220	132,365	127,300	114,052	81,618
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	7.12%	6.60%

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

- For changes of assumptions, see Note 10 to the financial statements.

CITY OF MADDOCK  
Maddock, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2020

	Balance 1/1/2020	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12/31/2020
<b><u>Major Governmental Funds</u></b>						
General Fund	(9,120.99)	148,528.48			212,204.99	(72,797.50)
Street Improvement Project - 2016	337,170.89	984,494.75			142,401.25	1,179,264.39
<b>Total Major Governmental Funds</b>	<b>328,049.90</b>	<b>1,133,023.23</b>	<b>-</b>	<b>-</b>	<b>354,606.24</b>	<b>1,106,466.89</b>
<b><u>Non-Major Governmental Funds</u></b>						
Municipal Highway	(87,567.48)	47,560.62			65,025.36	(105,032.22)
Airport	83,261.01	75,844.43			5,761.17	153,344.27
Library	(74,649.87)	5,642.99			13,995.60	(83,002.48)
Sales Tax:						
Operating	18,157.88	106,466.73			31,030.26	93,594.35
Reserve for Chip Seal	35,507.49					35,507.49
Special Projects	49,801.75	14,842.80				64,644.55
State Aid	146,016.32					146,016.32
Emergency	6,444.35	2,166.31			1,996.25	6,614.41
City Share of Special Assessments	(691.46)	13,563.37			11,887.32	984.59
Debt Service		21,020.75			21,020.75	-
<b>Total Non-Major Governmental Funds</b>	<b>176,279.99</b>	<b>287,108.00</b>	<b>-</b>	<b>-</b>	<b>150,716.71</b>	<b>312,671.28</b>
<b>Total Governmental Funds</b>	<b>504,329.89</b>	<b>1,420,131.23</b>	<b>-</b>	<b>-</b>	<b>505,322.95</b>	<b>1,419,138.17</b>
<b><u>Major Enterprise Funds</u></b>						
Light Operating	1,535,166.14	776,040.24			580,955.53	1,730,250.85
Water	34,045.29	117,519.73			141,449.52	10,115.50
Sewer	(103,886.57)	61,665.03			38,473.92	(80,695.46)
Garbage	107,895.16	89,389.15			89,138.58	108,145.73
<b>Total Major Enterprise Funds</b>	<b>1,573,220.02</b>	<b>1,044,614.15</b>	<b>-</b>	<b>-</b>	<b>850,017.55</b>	<b>1,767,816.62</b>
<b><u>Non-Major Enterprise Fund</u></b>						
Water Surcharge	169,977.55	25,798.77			11,853.44	183,922.88
<b>Total Enterprise Funds</b>	<b>1,743,197.57</b>	<b>1,070,412.92</b>	<b>-</b>	<b>-</b>	<b>861,870.99</b>	<b>1,951,739.50</b>
<b>Total Primary Government</b>	<b>2,247,527.46</b>	<b>2,490,544.15</b>	<b>-</b>	<b>-</b>	<b>1,367,193.94</b>	<b>3,370,877.67</b>
<b><u>Discretely Presented Component Unit</u></b>						
Maddock Business and Tech. Center	57,996.35	65,419.95			68,914.56	54,501.74
<b>Total Reporting Entity</b>	<b>2,305,523.81</b>	<b>2,555,964.10</b>	<b>-</b>	<b>-</b>	<b>1,436,108.50</b>	<b>3,425,379.41</b>



# Rath & Mehrer, P.C.

Certified Public Accountants

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

*Specializing in Governmental Auditing*

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

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

INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Maddock  
Maddock, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Maddock, Maddock, North Dakota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated March 12, 2021.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-001 and 2020-002, that we consider to be significant deficiencies.

### **Compliance and Other Matters**

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

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

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

### **Purpose of this Report**

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 12, 2021





2. 2020-002- Financial Statement Preparation

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

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

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

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

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

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