

AUDIT REPORT

CITY OF TIOGA
Tioga, North Dakota

For the Year Ended December 31, 2020

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF TIOGA
Tioga, North Dakota

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CITY OF TIOGA
Tioga, North Dakota

CITY OFFICIALS

Timothy Sundhagen	Commission President
Natalie Bugbee	Commission Vice President
Tim Christensen	Commissioner
Larry Maize	Commissioner
Jessica Sandberg	Commissioner
Abby Salinas	Auditor/Administrator

Rath & Mehrer, P.C.

Certified Public Accountants

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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Tioga
Tioga, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tioga, Tioga, 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, each major fund and the aggregate remaining fund information of the City of Tioga, Tioga, 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

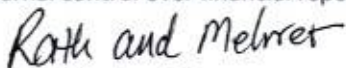
Other Information

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 February 19, 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

February 19, 2021

CITY OF TIOGA
Tioga North Dakota

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>ASSETS:</u>			
Cash and Cash Equivalents	11,301,562.22	2,592,860.60	13,894,422.82
Capital Assets (net of accumulated depreciation):			
Land	50,000.00		50,000.00
Buildings and Infrastructure	19,106,997.00	35,461,471.00	54,568,468.00
Vehicles and Machinery	590,721.00	17,653.00	608,374.00
Total Capital Assets	19,747,718.00	35,479,124.00	55,226,842.00
Total Assets	31,049,280.22	38,071,984.60	69,121,264.82
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>			
Changes in Resources Related to Pensions	750,444.00		750,444.00
<u>Liabilities:</u>			
Long-Term Liabilities:			
Due Within One Year:			
Loan Payable	24,619.58		24,619.58
Special Assessment Bonds Payable	115,000.00		115,000.00
Revenue Bonds Payable	70,000.00	95,000.00	165,000.00
Due After One Year:			
Loan Payable	152,974.60		152,974.60
Special Assessment Bonds Payable	740,000.00		740,000.00
Revenue Bonds Payable	2,985,000.00	1,475,000.00	4,460,000.00
Net Pension Liability	1,182,457.00		1,182,457.00
Total Liabilities	5,270,051.18	1,570,000.00	6,840,051.18
<u>DEFERRED INFLOWS OF RESOURCES:</u>			
Changes in Resources Related to Pensions	661,584.00		661,584.00
<u>NET POSITION:</u>			
Net Investment in Capital Assets	15,660,123.82	33,909,124.00	49,569,247.82
Restricted for:			
Debt Service	395,767.17		395,767.17
Special Purposes	1,268,130.12	127,077.46	1,395,207.58
Unrestricted	8,544,067.93	2,465,783.14	11,009,851.07
Total Net Position	25,868,089.04	36,501,984.60	62,370,073.64

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

CITY OF TIOGA
Tioga North Dakota

Statement of Activities - Modified Cash Basis
December 31, 2020

Functions/Programs	Net (Expense) Revenue and Change in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Primary Government					Total
<u>Governmental Activities:</u>					
General Government	1,054,511.60	63,496.60	311.00	(990,704.00)	(990,704.00)
Public Safety	1,045,176.30	70,749.82	2,516,415.52	1,541,989.04	1,541,989.04
Streets and Public Works	2,425,604.87	8,795.32	112,548.21	(2,304,261.34)	(2,304,261.34)
Urban and Economic Development	514,002.56		133,284.08	(380,718.48)	(380,718.48)
Culture and Recreation	543,373.26		1,963.42	(541,409.84)	(541,409.84)
Health and Welfare	632,252.26			(632,252.26)	(632,252.26)
Other	518.74			(518.74)	(518.74)
Interest on Long-Term Debt	133,494.70		97,179.94	(36,314.76)	(36,314.76)
Total Governmental Activities	6,348,934.29	143,041.74	2,861,702.17	(3,344,190.38)	(3,344,190.38)
<u>Business-Type Activities:</u>					
Water and Sewer	3,044,639.95	1,649,552.05	20,049.41		(1,375,038.49)
Garbage	408,891.65	332,112.51			(76,779.14)
Vector Control	14,711.47				(14,711.47)
Total Business-Type Activities	3,468,243.07	1,981,664.56			(1,466,529.10)
Total Primary Government	9,817,177.36	2,124,706.30	2,861,702.17	(3,344,190.38)	(1,466,529.10)
Total Primary Government	9,817,177.36	2,124,706.30	2,861,702.17	(3,344,190.38)	(1,466,529.10)
<u>General Revenues:</u>					
<u>Taxes:</u>					
Property taxes; levied for general purposes				376,570.75	376,570.75
Property taxes; levied for special purposes				51,493.73	27,727.88
Telecommunication taxes				3,011.06	3,011.06
Cigarette taxes				3,239.93	3,239.93
City sales taxes				3,161,261.54	3,161,261.54
Occupancy taxes				63,554.91	63,554.91
Oil and gas production taxes				3,679,591.00	3,679,591.00
Coal severance taxes				105.70	105.70
Intergovernmental revenue not restricted to specific programs				116,641.55	116,641.55
Earnings on investments and other revenue				243,075.80	1,154.40
Transfers				(480,972.95)	480,972.95
Total General Revenues and Transfers				7,217,573.02	509,855.23
Change in Net Position				3,873,382.64	(956,673.87)
Net Position - January 1				21,994,706.40	37,458,658.47
Net Position - December 31				25,868,089.04	36,501,984.60

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

CITY OF TIOGA
Tioga, North Dakota

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

	Major Funds							Total
	Police							
	General	City Sales Tax	South Main Reconstruction	Department Building	Museum Building	Other Governmental Funds		
ASSETS:								
Cash and Cash Equivalents	5,094,577.05	1,088,016.43	4,200,000.00	293,087.88	-	625,880.86	11,301,562.22	
FUND BALANCES:								
Restricted for:								
Infrastructure		378,847.34					378,847.34	
Urban and Economic Development		477,015.56				139,845.95	616,861.51	
Culture and Recreation		232,153.53				29,464.37	261,617.90	
City Share of Specials						10,803.37	10,803.37	
Debt Service						395,767.17	395,767.17	
Assigned to:								
Public Safety	107,753.53			293,087.88			400,841.41	
Building	4,031,739.31						4,031,739.31	
Infrastructure	117,870.70		4,200,000.00				4,317,870.70	
Emergency						50,000.00	50,000.00	
Unassigned	837,213.51						837,213.51	
Total Fund Balances	5,094,577.05	1,088,016.43	4,200,000.00	293,087.88	-	625,880.86	11,301,562.22	

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

CITY OF TIOGA
Tioga 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	11,301,562.22
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	22,215,394.00
Less Accumulated Depreciation	<u>(2,467,676.00)</u>
Net Capital Assets	19,747,718.00

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	750,444.00
Total Deferred Inflows of Resources	<u>(661,584.00)</u>
Net Deferred Outflows/Inflows of Resources	88,860.00

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

Loan Payable	(177,594.18)
Special Assessments Bonds Payable	(855,000.00)
Revenue Bonds Payable	(3,055,000.00)
Net Pension Liability	<u>(1,182,457.00)</u>
Total Long-Term Liabilities	<u>(5,270,051.18)</u>

Total Net Position of Governmental Activities	<u>25,868,089.04</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF TIOGA
Tioga, 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					Other	Total
	General	City Sales Tax	South Main Reconstruction	Police Department Building	Museum Building	Governmental Funds	Governmental Funds
Revenues:							
Taxes	376,570.75	3,161,261.54				115,048.64	3,652,880.93
Special Assessments						97,179.94	97,179.94
Licenses, Permits and Fees	63,496.60						63,496.60
Intergovernmental	4,434,856.85			1,924,458.91		74,511.63	6,433,827.39
Charges for Services	9,656.42					4,346.40	14,002.82
Fines and Forfeits	65,542.32						65,542.32
Miscellaneous	362,466.13	12,765.75				1,128.00	376,359.88
Total Revenues	5,312,589.07	3,174,027.29	-	1,924,458.91	-	292,214.61	10,703,289.88
Expenditures:							
Current:							
General Government	823,934.60						823,934.60
Public Safety	974,707.30						974,707.30
Streets and Public Works	33,024.40			26,176.03	126,382.04	1,980,237.40	2,165,819.87
Urban and Economic Development	130,000.00	346,202.36				37,800.20	514,002.56
Culture and Recreation	187,118.24	127,923.00				91,808.02	406,849.26
Health and Welfare		632,252.26					632,252.26
Other						518.74	518.74
Capital Outlay	186,428.00			1,605,195.00	841,291.00	37,100.00	2,670,014.00
Debt Service:							
Principal						209,375.82	209,375.82
Interest and Service Charges						133,494.70	133,494.70
Total Expenditures	2,335,212.54	1,106,377.62	-	1,631,371.03	967,673.04	2,490,334.88	8,530,969.11
Excess (Deficiency) of Revenue							
Over Expenditures	2,977,376.53	2,067,649.67	-	293,087.88	(967,673.04)	(2,198,120.27)	2,172,320.77
Other Financing Sources (Uses):							
Transfers In	1,116,428.00	182,918.05	4,200,000.00		104.98	2,144,442.79	7,643,893.82
Transfers Out	(6,116,476.31)	(2,008,390.46)					(8,124,866.77)
Total Other Financing Sources (Uses)	(5,000,048.31)	(1,825,472.41)	4,200,000.00	-	104.98	2,144,442.79	(480,972.95)
Net Changes in Fund Balances	(2,022,671.78)	242,177.26	4,200,000.00	293,087.88	(967,568.06)	(53,677.48)	1,691,347.82
Fund Balance - January 1	7,117,248.83	845,839.17	-	-	967,568.06	679,558.34	9,610,214.40
Fund Balance - December 31	5,094,577.05	1,088,016.43	4,200,000.00	293,087.88	-	625,880.86	11,301,562.22

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

CITY OF TIOGA
Tioga, 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	1,691,347.82
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The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Capital Outlay	2,670,014.00	
Current Year Depreciation Expense	<u>(513,029.00)</u>	2,156,985.00

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>209,375.82</u>	209,375.82

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

Net Increase to Pension Expense	<u>(184,326.00)</u>
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Change in Net Position of Governmental Activities	<u><u>3,873,382.64</u></u>
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The accompanying notes are an integral part of these financial statements.

CITY OF TIOGA
Tioga, North Dakota

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

	<u>Major Enterprise Funds</u>		Other	Total
	Water and Sewer	Garbage	Enterprise Fund	Enterprise Fund
ASSETS				
<u>Current Assets:</u>				
Cash and Cash Equivalents	2,465,783.14		127,077.46	2,592,860.60
<u>Noncurrent Assets:</u>				
Capital Assets (net of accumulated depreciation):				
Buildings and Infrastructure	35,461,471.00			35,461,471.00
Vehicles and Machinery	17,653.00			17,653.00
Total Noncurrent Assets	35,479,124.00	-	-	35,479,124.00
Total Assets	37,944,907.14	-	127,077.46	38,071,984.60
LIABILITIES				
<u>Current Liabilities:</u>				
Revenue Bonds Payable	95,000.00			95,000.00
<u>Noncurrent Liabilities:</u>				
Revenue Bonds Payable	1,475,000.00			1,475,000.00
Total Liabilities	1,570,000.00	-	-	1,570,000.00
NET POSITION				
Net Investment in Capital Assets	33,909,124.00			33,909,124.00
Restricted for:				
Vector Control			127,077.46	127,077.46
Unrestricted	2,465,783.14			2,465,783.14
Total Net Position	36,374,907.14	-	127,077.46	36,501,984.60

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

CITY OF TIOGA
Tioga 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
	Water and Sewer	Garbage		
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Sales	1,272,532.83			1,272,532.83
Warehouse Water Sales	11,681.00			11,681.00
Sewer Charges	352,513.57			352,513.57
Garbage Charges		313,599.94		313,599.94
Landfill Fees		18,512.57		18,512.57
Miscellaneous Charges	12,824.65			12,824.65
Total Operating Revenues	1,649,552.05	332,112.51	-	1,981,664.56
<u>Operating Expenses:</u>				
Water Operations	291,304.22			291,304.22
Water Costs	931,235.37			931,235.37
Sewer Operations	236,244.59			236,244.59
Garbage Operations		51,187.09		51,187.09
Garbage Contracted Services		357,704.56		357,704.56
Repairs and Maintenance	68,198.27			68,198.27
Vector Control			14,711.47	14,711.47
Depreciation	1,475,070.00			1,475,070.00
Total Operating Expenses	3,002,052.45	408,891.65	14,711.47	3,425,655.57
Operating Income (Loss)	(1,352,500.40)	(76,779.14)	(14,711.47)	(1,443,991.01)
<u>Non-Operating Revenues (Expenses):</u>				
Property Taxes			27,727.88	27,727.88
Special Assessments	20,049.41	1,015.00		21,064.41
Miscellaneous Revenues	139.40			139.40
Interest Payment	(34,175.00)			(34,175.00)
Administration Fee	(8,412.50)			(8,412.50)
Total Non-Operating Revenues (Expenses)	(22,398.69)	1,015.00	27,727.88	6,344.19
Income (Loss) Before Transfers	(1,374,899.09)	(75,764.14)	13,016.41	(1,437,646.82)
Transfers In	541,833.81	75,764.14		617,597.95
Transfers Out	(136,625.00)			(136,625.00)
Changes in Net Position	(969,690.28)	-	13,016.41	(956,673.87)
Net Position - January 1	37,344,597.42	-	114,061.05	37,458,658.47
Net Position - December 31	36,374,907.14	-	127,077.46	36,501,984.60

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

CITY OF TIOGA
Tioga 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
	Water and Sewer	Garbage		
<u>Cash flows from operating activities:</u>				
Receipts from customers	1,649,552.05	332,112.51		1,981,664.56
Payments to suppliers and employees	(1,526,982.45)	(408,891.65)	(14,711.47)	(1,950,585.57)
Net cash provided (used) by operating activities	122,569.60	(76,779.14)	(14,711.47)	31,078.99
<u>Cash flows from noncapital financing activities:</u>				
Property taxes			27,727.88	27,727.88
Miscellaneous receipts	139.40			139.40
Transfers in	541,833.81	75,764.14		617,597.95
Transfers out	(136,625.00)			(136,625.00)
Net cash provided (used) by noncapital financing activities	405,348.21	75,764.14	27,727.88	508,840.23
<u>Cash flows from capital and related financing activities:</u>				
Special Assessments	20,049.41	1,015.00		21,064.41
Infrastructure projects	(4,120,156.00)			(4,120,156.00)
Principal payments	(130,000.00)			(130,000.00)
Interest payments	(34,175.00)			(34,175.00)
Administration fee	(8,412.50)			(8,412.50)
Net cash provided (used) by capital and related financing activities	(4,272,694.09)	1,015.00	-	(4,271,679.09)
Net increase in cash and cash equivalents	(3,744,776.28)	-	13,016.41	(3,731,759.87)
Cash and cash equivalents, January 1	6,210,559.42	-	114,061.05	6,324,620.47
Cash and cash equivalents, December 31	2,465,783.14	-	127,077.46	2,592,860.60
<u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>				
Operating income (Loss)	(1,352,500.40)	(76,779.14)	(14,711.47)	(1,443,991.01)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	1,475,070.00			1,475,070.00
Net cash provided (used) by operating activities	122,569.60	(76,779.14)	(14,711.47)	31,078.99

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

CITY OF TIOGA
Tioga, North Dakota

Statement of Changes in Fiduciary Assets and Liabilities
Modified Cash Basis - Custodial Funds
December 31, 2020

	<u>Custodial Funds</u>
<u>Additions:</u>	
Property tax collections for other governments	<u>16,721.31</u>
<u>Deductions:</u>	
Payments of property tax to other governments	16,996.86
Salaries paid to park employees	<u>5,315.99</u>
Total Deductions	<u>22,312.85</u>
Net Change in Assets and Liabilities	<u>(5,591.54)</u>
Assets and Liabilities - January 1	<u>5,591.54</u>
Assets and Liabilities - December 31	<u><u>-</u></u>

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

CITY OF TIOGA
Tioga, North Dakota

Notes to the Financial Statements
December 31, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the City of Tioga as a reporting entity.

B. Basis of Presentation

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

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

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

displayed in a separate column. All remaining governmental 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.

City Sales Tax. This fund accounts for the city's sales tax collections which are used for urban and economic development, parks and recreation, community improvement and to provide property tax relief.

South Main Reconstruction. This fund accounts for oil and gas production taxes used for the purpose of street repairs and maintenance.

Police Department Building. This fund accounts for a 1% Sales Tax Grant from Williams County and other funds set-aside by the city for the construction of a new building for the city's police department.

Museum Building. This fund accounts for oil and gas production taxes to be used for the construction of a new museum building.

The city reports the following major enterprise funds:

Water and Sewer. This fund accounts for the activities of the city's water distribution system and sewage collection system.

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

The city reports the following type of fiduciary fund:

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

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 and Cash Equivalents

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.

E. Capital Assets

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

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

Buildings and Infrastructure	25 to 75 years
Machinery and Vehicles	5 to 10 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 \$13,894,423 and the bank balance was \$14,022,087. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$13,772,087 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.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

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

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
Capital assets not being depreciated:				
Land	50,000			50,000
Construction in Progress	3,206,475	2,446,486	5,652,961	-
Total	3,256,475	2,446,486	5,652,961	50,000
Capital assets being depreciated:				
Buildings and Infrastructure	14,896,777	5,652,961		20,549,738
Machinery and Vehicles	1,424,328	223,528	32,200	1,615,656
Total	16,321,105	5,876,489	32,200	22,165,394
Less accumulated depreciation for:				
Buildings and Infrastructure	1,074,951	367,790		1,442,741
Machinery and Vehicles	911,896	145,239	32,200	1,024,935
Total	1,986,847	513,029	32,200	2,467,676
Total capital assets being depreciated, net	14,334,258	5,363,460	-	19,697,718
Governmental Activities				
Capital Assets, Net	17,590,733	7,809,946	5,652,961	19,747,718
Business-type Activities:				
Capital assets being depreciated:				
Buildings and Infrastructure	40,237,389	4,120,156		44,357,545
Machinery and Vehicles	162,457			162,457
Total	40,399,846	4,120,156	-	44,520,002
Less accumulated depreciation for:				
Buildings and Infrastructure	7,429,175	1,466,899		8,896,074
Machinery and Vehicles	136,633	8,171		144,804
Total	7,565,808	1,475,070	-	9,040,878
Business-Type Activities				
Capital Assets, Net	32,834,038	2,645,086	-	35,479,124

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

Governmental Activities:

General Government	46,251
Public Safety	70,469
Streets and Public Works	259,785
Culture and Recreation	136,524
Total	<u>513,029</u>

Business-type Activities:

Water and Sewer	<u>1,475,070</u>
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Note 5 LONG-TERM DEBT

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

Governmental Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Loan Payable	201,970		24,376	177,594	24,620
Special Assessment Bonds	970,000		115,000	855,000	115,000
Revenue Bonds	<u>3,125,000</u>		<u>70,000</u>	<u>3,055,000</u>	<u>70,000</u>
Total	<u>4,296,970</u>	<u>-</u>	<u>209,376</u>	<u>4,087,594</u>	<u>209,620</u>

Business-type Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Special Assessment Bonds	35,000		35,000	-	
Revenue Bonds	<u>1,665,000</u>		<u>95,000</u>	<u>1,570,000</u>	<u>95,000</u>
Total	<u>1,700,000</u>	<u>-</u>	<u>130,000</u>	<u>1,570,000</u>	<u>95,000</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:

Loan Payable. The city has taken out a loan to provide funds for improvements and repairs to water, sewer and streets in the Annabelle Development. Loan payable at December 31, 2020 is as follows:

\$250,000 loan payable with the Rural Development Finance Corporation dated September 1, 2017. This loan is due in annual installments of \$26,395.52 through September 15, 2027; interest is at 1%.

177,594.18

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	24,619.58	1,775.94
2022	24,865.77	1,529.75
2023	25,114.43	1,281.09
2024	25,365.58	1,029.94
2025	25,619.23	776.29
2026-2027	<u>52,009.59</u>	<u>781.44</u>
Total	<u>177,594.18</u>	<u>7,174.45</u>

Special Assessment Bonds: The city has issued special assessment bonds to provide funds for improvements and repairs to water, sewer and streets in the Annabelle Development. Special assessment bonds outstanding at December 31, 2020 are as follows:

\$1,200,000 Refunding Improvement Bonds, Series 2017A,
due in annual installments of \$115,000 to \$130,000 through
May 1, 2027; interest is at 2% to 3%.

855,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	115,000.00	18,850.00
2022	115,000.00	16,550.00
2023	120,000.00	14,200.00
2024	120,000.00	11,800.00
2025	125,000.00	9,037.50
2026-2027	<u>260,000.00</u>	<u>7,637.50</u>
Total	<u>855,000.00</u>	<u>78,075.00</u>

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:

\$3,300,000 Sales Tax Revenue Bonds, Series 2018A,
due in annual installments of \$70,000 to \$130,000
through September 1, 2039; interest is at 3.5%.

3,055,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	70,000.00	106,925.00
2022	70,000.00	104,475.00
2023	75,000.00	102,025.00
2024	75,000.00	99,400.00
2025	80,000.00	96,775.00
2026-2030	445,000.00	439,600.00
2031-2035	530,000.00	356,300.00
2036-2040	625,000.00	257,250.00
2041-2045	750,000.00	139,125.00
2046-2047	<u>335,000.00</u>	<u>17,675.00</u>
Total	<u>3,055,000.00</u>	<u>1,719,550.00</u>

Business-type Activities (Proprietary Funds):

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

\$2,500,000 Sewer Improvement Revenue Bonds, Series
2014, due in annual installments of \$95,000 to \$130,000
through September 1, 2034; interest is at 2%.

1,570,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2021	95,000.00	31,400.00
2022	100,000.00	29,500.00
2023	100,000.00	27,500.00
2024	105,000.00	25,500.00
2025	105,000.00	23,400.00
2026-2030	570,000.00	84,200.00
2031-2034	<u>495,000.00</u>	<u>24,800.00</u>
Total	<u>1,570,000.00</u>	<u>246,300.00</u>

Note 6 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2020:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Highway Distribution	432,633.12	
Garbage	75,764.14	
General Fund		508,397.26
General Fund	300,955.77	
General Fund: Capital Replacement	316,428.00	
Emergency	26,763.38	
Oil and Gas Production Tax: Building		644,147.15
To subsidize expenditures/eliminate deficit fund balances.		
Simons Street Improvement District	792,446.23	
Watermain NE Reconstruction	329,981.95	
Community Center	11,665.00	
NDDOT TAP (2018 & 2019)	58,372.32	
Museum Building	104.98	
County Shared Projects	676,935.06	
Oil and Gas Production Tax: Building		747,077.36
City Sales Tax: Infrastructure		1,122,428.18
South Main Reconstruction	4,200,000.00	
Oil and Gas Tax: Infrastructure		4,200,000.00
To provide funds for city building and infrastructure projects.		
General Fund	499,044.23	
City Sales Tax: Property Tax Relief		499,044.23
To provide property tax relief.		
City Sales Tax - Property Tax Relief	182,918.05	
City Sales Tax - Economic Development		182,918.05
To reduce economic development balance to required \$150,000 cap.		
Community Center	204,000.00	
City Sales Tax - Economic Development		180,000.00
City Sales Tax- Community Improv.		24,000.00
Water and Sewer Improv. Bonds of 2006	16,854.54	
Oil and Gas Production Tax: Building		16,854.54
SRF Fund	136,625.00	
Sewer		136,625.00
To subsidize debt service payments.		

Note 7 **RISK MANAGEMENT**

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$1,605,725 for public assets.

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

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

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

Note 8 **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 Tioga reported a liability of \$1,182,457 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 .100886 percent, which was an increase of .017138 from its proportion measured as of June 30, 2018.

For the year ended December 31, 2020, the city recognized pension expense of \$253,466. 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	701	214,593
Changes in assumptions	441,853	379,369
Net difference between projected and actual earnings on pension plan investments	20,601	
Changes in proportion and differences between employer contributions and proportionate share of contributions	208,438	67,622
City contributions subsequent to the measurement date (see below)	78,851	
Total	<u>750,444</u>	<u>661,584</u>

\$78,851 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 30, 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	76,911
2021	26,711
2022	(354)
2023	(69,074)
2024	(24,185)
Thereafter	0

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	1,695,389	1,182,457	751,505

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 9 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 10 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 TIOGA
Tioga, 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)
Revenues:				
Taxes	384,008.90	384,008.90	376,570.75	(7,438.15)
Licenses, Permits and Fees	41,700.00	41,700.00	63,496.60	21,796.60
Intergovernmental	5,115,400.00	5,115,400.00	4,434,856.85	(680,543.15)
Charges for Services	8,300.00	8,300.00	9,656.42	1,356.42
Fines and Forfeits	15,000.00	15,000.00	65,542.32	50,542.32
Miscellaneous	33,000.00	33,000.00	362,466.13	329,466.13
Total Revenues	5,597,408.90	5,597,408.90	5,312,589.07	(284,819.83)
Expenditures:				
Current:				
General Government	1,070,282.00	1,070,282.00	823,934.60	246,347.40
Public Safety	694,135.17	694,135.17	974,707.30	(280,572.13)
Streets and Public Works	15,000.00	15,000.00	33,024.40	(18,024.40)
Urban and Economic Development		130,000.00	130,000.00	-
Culture and Recreation	242,251.40	242,251.40	187,118.24	55,133.16
Capital Outlay		186,428.00	186,428.00	-
Total Expenditures	2,021,668.57	2,338,096.57	2,335,212.54	2,884.03
Excess (Deficiency) of Revenues over Expenditures	3,575,740.33	3,259,312.33	2,977,376.53	(281,935.80)
Other Financing Sources (Uses):				
Transfers In	2,009,229.17	2,009,229.17	1,116,428.00	(892,801.17)
Transfers Out	(4,014,143.00)	(4,014,143.00)	(6,116,476.31)	(2,102,333.31)
Total Other Financing Sources (Uses)	(2,004,913.83)	(2,004,913.83)	(5,000,048.31)	(2,995,134.48)
Net Change in Fund Balances	1,570,826.50	1,254,398.50	(2,022,671.78)	(3,277,070.28)
Fund Balance - January 1	7,117,248.83	7,117,248.83	7,117,248.83	
Fund Balance - December 31	8,688,075.33	8,371,647.33	5,094,577.05	(3,277,070.28)

CITY OF TIOGA
Tioga, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	2,490,000.00	2,490,000.00	3,161,261.54	671,261.54
Miscellaneous			12,765.75	12,765.75
Total Revenues	2,490,000.00	2,490,000.00	3,174,027.29	684,027.29
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	313,770.83	313,770.83	346,202.36	(32,431.53)
Culture and Recreation	100,000.00	100,000.00	127,923.00	(27,923.00)
Health and Welfare	500,000.00	500,000.00	632,252.26	(132,252.26)
Total Expenditures	913,770.83	913,770.83	1,106,377.62	(192,606.79)
Excess (Deficiency) of Revenues over Expenditures	1,576,229.17	1,576,229.17	2,067,649.67	491,420.50
<u>Other Financing Sources (Uses):</u>				
Transfers In	49,227.17	49,227.17	182,918.05	133,690.88
Transfers Out	(3,625,456.34)	(3,625,456.34)	(2,008,390.46)	1,617,065.88
Total Other Financing Sources (Uses)	(3,576,229.17)	(3,576,229.17)	(1,825,472.41)	1,750,756.76
Net Change in Fund Balances	(2,000,000.00)	(2,000,000.00)	242,177.26	2,242,177.26
Fund Balance - January 1	845,839.17	845,839.17	845,839.17	
Fund Balance - December 31	(1,154,160.83)	(1,154,160.83)	1,088,016.43	2,242,177.26

CITY OF TIOGA
Tioga, 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 approved the following amendments the city's budget for the year ending December 31, 2020.

	<u>Original Budget</u>	<u>Amendment</u>	<u>Amended Budget</u>
	<u>Appropriations</u>		
General fund	2,021,669	316,428	2,338,097
<u>Special Revenue Fund</u>			
Emergency		26,763	26,763

Excess of Actual Expenditures Over Budget

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

<u>Special Revenue Fund</u>	
City Sales Tax	192,606.79
<u>Debt Service fund</u>	
Annabelle SID Debt Service	26,914.26

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

CITY OF TIOGA
Tioga, 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	0.100886%	0.083748%	0.079458%	0.082988%	0.011067%	0.087630%
City's proportionate share of the net pension liability	1,182,457	1,413,339	1,277,151	808,799	752,551	556,206
City's covered employee payroll	949,952	903,026	920,408	1,114,884	1,124,679	826,421
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	124.48%	156.51%	138.76%	72.55%	66.91%	67.30%
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	67,637	64,296	65,533	79,380	80,077	55,176
Contributions in relation to the statutorily required contributions	(67,637)	(64,296)	(65,533)	(79,380)	(80,077)	(55,176)
Contribution deficiency (excess)	0	0	0	0	0	0
City's covered-employee payroll	949,952	903,026	920,408	1,114,884	1,124,679	826,421
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%	7.12%	7.12%	6.68%

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

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

CITY OF TIOGA
Tioga, 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
Major Governmental Funds						
General Fund:						
Operating	879,762.02	1,414,573.28	800,000.00	508,397.26	1,748,724.53	837,213.51
Capital Replacement			316,428.00		316,428.00	-
Oil and Gas Production Tax:						
Building	3,600,022.85	1,839,795.51		1,408,079.05		4,031,739.31
Infrastructure	2,478,075.21	1,839,795.49		4,200,000.00		117,870.70
Police Grants	158,338.06	216,938.25			269,716.91	105,559.40
Police Donations/Contributions	50.00	358.54			140.00	268.54
Community Center Donations/Contributions	1,000.69	1,128.00			203.10	1,925.59
Total General Fund	7,117,248.83	5,312,589.07	1,116,428.00	6,116,476.31	2,335,212.54	5,094,577.05
City Sales Tax:						
Economic Development	150,000.00	640,718.05		362,918.05	277,800.00	150,000.00
Property Tax Relief		316,126.18	182,918.05	499,044.23		-
Recreation	103,138.97	67,525.24			42,200.00	128,464.21
Parks	126,187.08	63,225.24			85,723.00	103,689.32
Community Improvement	154,742.22	189,675.70		24,000.00	68,402.36	252,015.56
Obligated Tioga Fund Projects	75,000.00					75,000.00
Infrastructure	236,770.90	1,264,504.62		1,122,428.18		378,847.34
Tioga Medical		632,252.26			632,252.26	-
South Main Reconstruction			4,200,000.00			4,200,000.00
Police Department Building		1,924,458.91			1,631,371.03	293,087.88
Museum Building	967,568.06		104.98		967,673.04	-
Total Major Governmental Funds	8,930,656.06	10,411,075.27	5,499,451.03	8,124,866.77	6,040,634.23	10,675,681.36
Non-major Governmental Funds						
Municipal Highway		76,894.61	432,633.12		509,527.73	-
City Share of Specials	10,800.37	3.00				10,803.37
Special Assessment Deficiency	6,289.35	64.45				6,353.80
Emergency	50,000.00		26,763.38		26,763.38	50,000.00
Library	66,754.69	54,517.70			91,808.02	29,464.37
Occupancy Tax	114,091.24	63,554.91			37,800.20	139,845.95
Annabelle SID Debt Service	292,393.52	97,179.94			163,514.26	226,059.20
Community Center Debt Service	139,229.17		204,000.00		179,875.00	163,354.17
Simons Street Improvement District			792,446.23		792,446.23	-
Community Center			11,665.00		11,665.00	-
County Shared Projects			676,935.06		676,935.06	-
Total Nonmajor Governmental Funds	679,558.34	292,214.61	2,144,442.79	-	2,490,334.88	625,880.86
Total Governmental Funds	9,610,214.40	10,703,289.88	7,643,893.82	8,124,866.77	8,530,969.11	11,301,562.22

(continued)

CITY OF TIOGA
Tioga, North Dakota

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

	Balance 1/1/2020	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12/31/2020
<u>Major Enterprise Funds</u>						
Water and Sewer:						
Water Operating	1,979,363.96	1,298,119.33			1,222,539.59	2,054,943.70
Sewer Operating	431,195.46	352,513.57		136,625.00	236,244.59	410,839.44
Water & Sewer Improvement Bonds of 2006		19,107.96	16,854.54		35,962.50	-
Watermain NE Reconstruction	3,800,000.00		329,981.95		4,129,981.95	-
NDDOT TAP (2018 & 2019)			58,372.32		58,372.32	-
SRF Fund			136,625.00		136,625.00	-
Garbage Operating		333,127.51	75,764.14		408,891.65	-
Total Major Enterprise Funds	6,210,559.42	2,002,868.37	617,597.95	136,625.00	6,228,617.60	2,465,783.14
<u>Nonmajor Enterprise Fund</u>						
Vector Fees	114,061.05	27,727.88			14,711.47	127,077.46
Total Enterprise Funds	6,324,620.47	2,030,596.25	617,597.95	136,625.00	6,243,329.07	2,592,860.60
<u>Fiduciary Fund</u>						
<u>Custodial Funds</u>						
Airport	275.55	16,721.31			16,996.86	-
Parks and Recreation	5,315.99				5,315.99	-
Total Custodial Funds	5,591.54	16,721.31	-	-	22,312.85	-
Total All Funds	15,940,426.41	12,750,607.44	8,261,491.77	8,261,491.77	14,796,611.03	13,894,422.82

Rath & Mehler, P.C.

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Tioga
Tioga, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tioga, Tioga, 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 February 19, 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

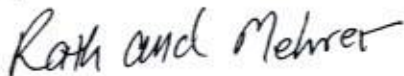
As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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

February 19, 2021

CITY OF TIOGA
Tioga, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2020

SECTION I – SUMMARY OF AUDIT RESULTS

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported
- Noncompliance material to financial Statements noted? ☐ Yes ☒ No

SECTION II – FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. 2020-001 – Segregation of Duties

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

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

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

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

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

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

2. 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.