



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

City of Parshall

Parshall, North Dakota

Audit Report for the Year Ended December 31, 2021

Client Code: PS31120



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Office of the
State Auditor

CITY OF PARSHALL

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CITY OF PARSHALL

City Officials and Audit Personnel

December 31, 2021

CITY OFFICIALS

Kyle Christianson
Bernadine Jorgenson
Katherine Moreno
Tom Huus
Robert Morenski

Mayor
Councilwoman
Councilwoman
Councilman
Councilman

Kelly Woessner
Jackie Dwyer

City Auditor
City Planner

AUDITOR PERSONNEL

Heath Erickson, CPA
Michael Schmitcke, CPA

Audit Manager
In-Charge

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

Board of City Councilmembers
City of Parshall
Parshall, North Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parshall, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Parshall's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parshall, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Parshall and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2020 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The City of Parshall prepares its financial statements 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.

Responsibilities of Management 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 to the financial statements; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pierce County's ability to continue as a going concern for one year following the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing our audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Parshall's internal control. Accordingly, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Parshall's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Parshall's basic financial statements. *The budgetary comparison schedules* are presented for purposes of additional analysis and is not a required part of the financial statements.

The budgetary comparison schedules and notes to the supplementary information are the responsibility of management and are derived from and relates 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 *budgetary comparison schedules and notes to the supplementary information* are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1 to the financial statements.

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

CITY OF PARSHALL

Independent Auditor's Report - Continued

appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2022 on our consideration of the City of Parshall'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 of Parshall's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 23, 2022

CITY OF PARSHALL

Statement of Net Position – Modified Cash Basis
December 31, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,748,026	\$ 252,944	\$ 2,000,970
Investments	-	-	-
Due from Enterprise Funds	6,742,771	-	6,742,771
Capital Assets, Net	12,033,849	38,512,237	50,546,086
Total Assets	<u>\$ 20,524,646</u>	<u>\$ 38,765,181</u>	<u>\$ 59,289,827</u>
LIABILITIES			
Due to Governmental Funds	\$ -	\$ 6,742,771	\$ 6,742,771
Long-Term Liabilities:			
Due Within One Year:			
Long-Term Debt	-	717,000	717,000
Due After One Year:			
Long-Term Debt	-	7,374,000	7,374,000
Total Liabilities	<u>\$ -</u>	<u>\$ 14,833,771</u>	<u>\$ 14,833,771</u>
NET POSITION			
Net Investment in Capital Assets	\$ 12,033,849	\$ 27,034,638	\$ 39,068,487
Unrestricted	8,490,797	(3,103,228)	5,387,569
Total Net Position	<u>\$ 20,524,646</u>	<u>\$ 23,931,410</u>	<u>\$ 44,456,056</u>

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

CITY OF PARSHALL

Statement of Activities – Modified Cash Basis For the Year Ended December 31, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities								
General Government	\$ 543,018	\$ 31,349	\$ -	\$ -	\$ (511,669)	\$ -	\$ (511,669)	
Public Works/Infrastructure	441,088	-	72,577	-	(368,511)	-	(368,511)	
Culture and Recreation	138,811	6,276	-	-	(132,535)	-	(132,535)	
Total Governmental Activities	\$ 1,122,917	\$ 37,625	\$ 72,577	\$ -	\$ (1,012,715)	\$ -	\$ (1,012,715)	
Business-Type Activities								
Water Funds	\$ 2,267,498	\$ 541,941	\$ 101,113	\$ 1,494,192	\$ -	\$ (130,252)	\$ (130,252)	
Non-Major Enterprise Funds	87,781	114,617	-	-	-	26,836	26,836	
Total Business-Type Activities	\$ 2,355,279	\$ 656,558	\$ 101,113	\$ 1,494,192	\$ -	\$ (103,416)	\$ (103,416)	
Total Primary Government	\$ 3,478,196	\$ 694,183	\$ 173,690	\$ 1,494,192	\$ (1,012,715)	\$ (103,416)	\$ (1,116,131)	
Component Units								
Airport	\$ -	\$ -	\$ -	\$ -				\$ -
General Revenues								
Taxes:								
Property taxes levied for general purposes					\$ 130,774	\$ -	\$ 130,774	\$ -
Property taxes levied for special purposes					30,115	-	30,115	-
State Aid Distribution					1,843,469	-	1,843,469	-
Interest Income					991	2,670	3,661	-
Miscellaneous Revenue					41,002	4,432	45,434	-
Total General Revenues and Transfers					\$ 2,046,351	\$ 7,102	\$ 2,053,453	\$ -
Change in Net Position					\$ 1,033,636	\$ (96,314)	\$ 937,322	\$ -
Net Position - January 1					\$ 17,423,029	\$ 23,910,411	\$ 41,333,440	\$ 1,481,164
Prior Period Adjustment					\$ 2,067,981	\$ 117,313	\$ 2,185,294	\$ (1,481,164)
Net Position - January 1, as restated					\$ 19,491,010	\$ 24,027,724	\$ 43,518,734	\$ -
Net Position - December 31					\$ 20,524,646	\$ 23,931,410	\$ 44,456,056	\$ -

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

CITY OF PARSHALL

Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2021

	General Fund	Capital Project Funds	Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,560,621	\$ -	\$ 187,405	\$ 1,748,026
Due from Other Funds	12,146,780	-	-	12,146,780
Total Assets	<u>\$13,707,401</u>	<u>\$ -</u>	<u>\$ 187,405</u>	<u>\$ 13,894,806</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to Other Funds	\$ -	\$ 3,390,912	\$ 2,013,097	\$ 5,404,009
FUND BALANCE				
Unassigned				
General Fund	\$13,707,401	\$ -	\$ -	\$ 13,707,401
Negative Fund Balances	-	(3,390,912)	(1,825,692)	(5,216,604)
Total Fund Balances	<u>\$13,707,401</u>	<u>\$(3,390,912)</u>	<u>\$ (1,825,692)</u>	<u>\$ 8,490,797</u>
Total Liabilities and Fund Balances	<u>\$13,707,401</u>	<u>\$ -</u>	<u>\$ 187,405</u>	<u>\$ 13,894,806</u>

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

CITY OF PARSHALL

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2021

Total Fund Balances for Governmental Funds \$ 8,490,797

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 therefore are not reported in the funds. 12,033,849

Total Net Position of Governmental Activities \$ 20,524,646

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

CITY OF PARSHALL

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
 For the Year Ended December 31, 2021

	General Fund	Capital Project Funds	Special Revenue Funds	Total Governmental Funds
REVENUES				
Property Taxes	\$ 130,774	\$ -	\$ 30,115	\$ 160,889
Licenses, Permits and Fees	31,349	-	-	31,349
Intergovernmental	1,835,162	-	80,884	1,916,046
Charges for Services	-	-	6,276	6,276
Interest Income	991	-	-	991
Miscellaneous	34,982	-	6,020	41,002
Total Revenues	\$ 2,033,258	\$ -	\$ 123,295	\$ 2,156,553
EXPENDITURES				
Current:				
General Government	\$ 331,709	\$ -	\$ 48,366	\$ 380,075
Public Works	-	-	310,663	310,663
Culture and Recreation	26,305	-	49,586	75,891
Total Expenditures	\$ 358,014	\$ -	\$ 408,615	\$ 766,629
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,675,244	\$ -	\$ (285,320)	\$ 1,389,924
Net Change in Fund Balances	\$ 1,675,244	\$ -	\$ (285,320)	\$ 1,389,924
Fund Balances - January 1	\$ 12,025,199	\$ (3,390,912)	\$ (1,540,372)	\$ 7,093,915
Prior Period Adjustment	\$ 6,958	\$ -	\$ -	\$ 6,958
Fund Balance - January 1 as restated	\$ 12,032,157	\$ (3,390,912)	\$ (1,540,372)	\$ 7,100,873
Fund Balance - December 31	\$ 13,707,401	\$ (3,390,912)	\$ (1,825,692)	\$ 8,490,797

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

CITY OF PARSHALL

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2021

Net Change in *Fund Balances* - Total Governmental Funds **\$ 1,389,924**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 70,926	
Current Year Depreciation Expense	<u>(427,214)</u>	<u>(356,288)</u>

Change in Net Position of Governmental Activities **\$ 1,033,636**

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

CITY OF PARSHALLStatement of Net Position – Proprietary Funds – Modified Cash Basis
December 31, 2021

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Major Fund</u>	Non Major Funds	Total
	Water Funds		Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ -	\$ 252,944	\$ 252,944
Noncurrent Assets:			
Capital Assets			
Nondepreciable	\$ 3,386,599	\$ -	\$ 3,386,599
Depreciable, Net	35,120,763	4,875	35,125,638
Total Noncurrent Assets	\$ 38,507,362	\$ 4,875	\$ 38,512,237
Total Assets	\$ 38,507,362	\$ 257,819	\$ 38,765,181
LIABILITIES			
Current Liabilities:			
Due to Other Funds	\$ 6,719,270	\$ 23,501	\$ 6,742,771
Long-Term Debt	717,000	-	717,000
Total Current Liabilities	\$ 7,436,270	\$ 23,501	\$ 7,459,771
Noncurrent Liabilities:			
Long-Term Debt	\$ 7,374,000	\$ -	\$ 7,374,000
Total Liabilities	\$ 14,810,270	\$ 23,501	\$ 14,833,771
NET POSITION			
Net Investment in Capital Assets	\$ 27,029,763	\$ 4,875	\$ 27,034,638
Unrestricted	(3,332,671)	229,443	(3,103,228)
Total Net Position	\$ 23,697,092	\$ 234,318	\$ 23,931,410

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

CITY OF PARSHALL

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2021

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Major Fund</u>	Non Major Funds	Total
	Water Funds		Enterprise Funds
OPERATING REVENUES			
Charges for Sales and Services	\$ 541,941	\$ 114,617	\$ 656,558
OPERATING EXPENSES			
Salaries & Benefits	\$ 161,475	\$ -	\$ 161,475
Telephone	13,363	60	13,423
Supplies & Publishing	479	-	479
Dues & Memberships	230	-	230
Repairs & Maintenance	17,797	754	18,551
Water Testing	7,274	-	7,274
Legal	2,084	-	2,084
Electricity	235,928	7,773	243,701
Chemicals	37,516	-	37,516
Gas & Fuel	3,334	-	3,334
Miscellaneous	5,059	-	5,059
Machinery & Equipment	54,926	-	54,926
Engineering	200,033	-	200,033
Garbage Collection	-	77,569	77,569
Depreciation	1,264,455	1,625	1,266,080
Total Operating Expenses	\$ 2,003,953	\$ 87,781	\$ 2,091,734
Operating Income (Loss)	\$ (1,462,012)	\$ 26,836	\$ (1,435,176)
NON-OPERATING REVENUES (EXPENSES)			
Interest on Investments	\$ 2,670	\$ -	\$ 2,670
State Grants	1,595,306	-	1,595,306
Miscellaneous Receipts	4,431	-	4,431
Interest Expense	(263,545)	-	(263,545)
Total Nonoperating Revenues (Expenses)	\$ 1,338,862	\$ -	\$ 1,338,862
Change in Net Position	\$ (123,150)	\$ 26,836	\$ (96,314)
Total Net Position - January 1	\$ 23,702,929	\$ 207,482	\$ 23,910,411
Prior Period Adjustment	\$ 117,313	\$ -	\$ 117,313
Net Position - January 1, as restated	\$ 23,820,242	\$ 207,482	\$ 24,027,724
Total Net Position - December 31	\$ 23,697,092	\$ 234,318	\$ 23,931,410

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

CITY OF PARSHALL

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2021

	Major Fund Water Funds	Non Major Funds	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 541,941	\$ 114,617	\$ 656,558
Payments to Suppliers	(578,023)	(86,157)	(664,180)
Payments to Employees	(161,475)	-	(161,475)
Net Cash Provided (Used) by Operating Activities	<u>\$ (197,557)</u>	<u>\$ 28,460</u>	<u>\$ (169,097)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES			
Miscellaneous Revenue (Expense)	\$ 4,431	\$ -	\$ 4,431
State Grants	101,114	-	101,114
Receipts for Interfund Loan Transactions	1,976,981	17,184	1,994,165
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ 2,082,526</u>	<u>\$ 17,184</u>	<u>\$ 2,099,710</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases and Construction of Capital Assets	\$ (2,419,286)	\$ -	\$ (2,419,286)
Capital Contributions	1,494,192	-	1,494,192
Principal Paid on Capital Debt	(699,000)	-	(699,000)
Interest & Fees Paid on Capital Debt	(263,545)	-	(263,545)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (1,887,639)</u>	<u>\$ -</u>	<u>\$ (1,887,639)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	\$ 2,670	\$ -	\$ 2,670
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ -</u>	<u>\$ 45,644</u>	<u>\$ 45,644</u>
Cash and Cash Equivalents, January 1	<u>\$ -</u>	<u>\$ 207,300</u>	<u>\$ 207,300</u>
Cash and Cash Equivalents, December 31	<u><u>\$ -</u></u>	<u><u>\$ 252,944</u></u>	<u><u>\$ 252,944</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	<u>\$ (1,462,012)</u>	<u>\$ 26,836</u>	<u>\$ (1,435,176)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation Expense	<u>\$ 1,264,455</u>	<u>\$ 1,624</u>	<u>\$ 1,266,079</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (197,557)</u></u>	<u><u>\$ 28,460</u></u>	<u><u>\$ (169,097)</u></u>

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

CITY OF PARSHALL

Statement of Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis
December 31, 2021

	<u>Custodial Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 74,947</u>
NET POSITION	
Restricted	
Funds Held for Other Governmental Units	<u>\$ 74,947</u>

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

CITY OF PARSHALL

Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Modified Cash Basis
For the Year Ended December 31, 2021

	<u>Custodial Funds</u>
ADDITIONS	
Tax Collections for Other Governments	\$ 6,417
Grant Collections for Other Governments	<u>64,570</u>
DEDUCTIONS	
Tax Disbursements to Other Governments	\$ 3,529
Grant Disbursements to Other Governments	<u>64,570</u>
Net Increase (Decrease) in Fiduciary Net Position	<u>\$ 2,888</u>
Net Position - Beginning	<u>\$ -</u>
Prior Period Adjustment	<u>\$ 72,059</u>
Net Position - Beginning Restated	<u>\$ 72,059</u>
Net Position - Ending	<u><u>\$ 74,947</u></u>

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

CITY OF PARSHALL

Notes to the Financial Statements
For the Year Ended December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Parshall ("City") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

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

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

Basis of Presentation

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

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

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

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

The City reports the following major governmental funds:

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

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

Capital Projects Fund - This fund accounts for financial resources dedicated to the renovation of the city hall building and other future construction projects.

CITY OF PARSHALL

Notes to the Financial Statements – Continued

The City reports the following major enterprise funds:

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

Additionally, the City reports the following fiduciary funds:

Custodial Fund - These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The custodial funds are mostly used to account for property taxes collected on behalf of other governments.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets and long-term debt are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

If the City utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and certificate of deposits with a maturity date of 90 days or less.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and garbage fund in the enterprise fund statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Assets	Years
Buildings and Infrastructure	25-100
Vehicles and Machinery	7-20
Land and Land Improvements	Indefinite
Furniture and Equipment	5-30

CITY OF PARSHALL

Notes to the Financial Statements – Continued

Long-Term Liabilities

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

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

Fund Balance

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

Net Position

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

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

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

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

Interfund Transactions

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

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

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

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Net position as of January 1, 2021 has been restated due to prior period errors as follows:

Governmental Activities	Amounts
Beginning Net Position, as previously reported	\$ 17,423,029
Adjustments to restate the January 1, 2021 Net Position	
Capital Assets, Net	6,958
Governmental Fund Balance	2,061,023
Net Position January 1, as restated	\$ 19,491,010

Business-Type Activities	Amounts
Beginning Net Position, as previously reported	\$ 23,910,411
Adjustments to restate the January 1, 2021 Net Position	
Capital Assets, Net	117,313
Net Assets January 1, as restated	\$ 24,027,724

CITY OF PARSHALL

Notes to the Financial Statements – Continued

Water Fund	Amounts
Beginning Net Position, as previously reported	\$ 23,702,929
Adjustments to restate the January 1, 2021 Net Position	
Capital Assets, Net	117,313
Net Position January 1, as restated	\$ 23,820,242

Fiduciary Activities	Amounts
Beginning Net Position, as previously reported	\$ -
Adjustments to restate the January 1, 2021 Net Position	
Custodial Funds	72,059
Net Position January 1, as restated	\$ 72,059

Parshall Airport Authority	Amounts
Beginning Net Position, as previously reported	\$ 1,481,164
Adjustments to restate the January 1, 2021 Net Position	
Capital Assets, Net	(1,198,372)
Cash	(282,792)
Net Position January 1, as restated	\$ -

Fund balance as of January 1, 2021 has been restated due to prior period errors as follows:

General Fund	Amounts
Beginning Fund Balance, as previously reported	\$ 12,025,199
Adjustments to restate the January 1, 2021 Fund Balance	
Fund Balance Classification Change	6,958
Net Position January 1, as restated	\$ 12,032,157

NOTE 3 DEPOSITS

Custodial Credit Risk

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

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

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

At year ended December 31, 2021, the City’s carrying amount of deposits totaled \$2,075,914, and the bank balances totaled \$2,095,705. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

CITY OF PARSHALL

Notes to the Financial Statements – Continued

NOTE 4 PROPERTY TAXES

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

NOTE 5 RETIREMENT PLAN

The City provides benefits for all of its full-time employees, after one year of employment, through a defined contribution plan with EMC National Life Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 7% of the employee’s gross salary for the year. The City’s share of retirement costs for the years ended December 31, 2021, 2020 and 2019 were \$25,692, \$34,714, and \$31,398, respectively.

NOTE 6 CAPITAL ASSETS

Primary Government

Governmental Activities

The following is a summary of changes in capital assets for the year ended 2021:

Governmental Activities	Balance Jan. 1 Restated	Increases	Decreases	Transfers	Balance Dec. 31
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 707,243	\$ 59,841	\$ -	\$ (767,084)	\$ -
Land	59,600	-	-	-	59,600
Total Capital Assets, Not Being Depreciated	\$ 766,843	\$ 59,841	\$ -	\$ (767,084)	\$ 59,600
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 13,989,650	\$ -	\$ -	\$ 767,084	\$ 14,756,734
Machinery & Equipment	843,320	11,085	-	-	854,405
Total Capital Assets, Being Depreciated	\$ 14,832,970	\$ 11,085	\$ -	\$ 767,084	\$ 15,611,139
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,697,921	\$ 375,455	\$ -	\$ -	\$ 3,073,376
Machinery & Equipment	511,755	51,759	-	-	563,514
Total Accumulated Depreciation	\$ 3,209,676	\$ 427,214	\$ -	\$ -	\$ 3,636,890
Total Capital Assets Being Depreciated, Net	\$ 11,623,294	\$ (416,129)	\$ -	\$ 767,084	\$ 11,974,249
Total Capital Assets, Net	\$ 12,390,137	\$ (356,288)	\$ -	\$ -	\$ 12,033,849

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

Governmental Activities	2021
General Government	\$ 162,943
Public Works	201,351
Culture and Recreation	62,920
Total Depreciation Expense	\$ 427,214

CITY OF PARSHALL

Notes to the Financial Statements – Continued

Business-Type Activities

The following is a summary of changes in capital assets for the year ended 2021:

Water Fund

Business-Type Activity - Water Fund	Balance Jan. 1 Restated	Increases	Decreases	Transfers	Balance Dec. 31
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 117,313	\$ 2,419,286	\$ -	\$ -	\$ 2,536,599
Land	850,000	-	-	-	850,000
Total Capital Assets, Not Being Depreciated	\$ 967,313	\$ 2,419,286	\$ -	\$ -	\$ 3,386,599
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 44,959,627	\$ -	\$ -	\$ -	\$ 44,959,627
Machinery & Equipment	370,139	-	-	-	370,139
Total Capital Assets, Being Depreciated	\$ 45,329,766	\$ -	\$ -	\$ -	\$ 45,329,766
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 8,620,172	\$ 1,257,746	\$ -	\$ -	\$ 9,877,918
Machinery & Equipment	324,376	6,709	-	-	331,085
Total Accumulated Depreciation	\$ 8,944,548	\$ 1,264,455	\$ -	\$ -	\$ 10,209,003
Total Capital Assets Being Depreciated, Net	\$ 36,385,218	\$ (1,264,455)	\$ -	\$ -	\$ 35,120,763
Total Capital Assets, Net	\$ 37,352,531	\$ 1,154,831	\$ -	\$ -	\$ 38,507,362

Depreciation expense was charged to the water function.

Sewer Fund

Business-Type Activity - Sewer Fund	Balance Jan. 1	Increases	Decreases	Balance Dec. 31
<i>Capital assets, being depreciated</i>				
Buildings & Infrastructure	\$ 65,000	\$ -	\$ -	\$ 65,000
<i>Less accumulated depreciation for</i>				
Buildings & Infrastructure	\$ 58,500	\$ 1,625	\$ -	\$ 60,125
Total Capital Assets, Net	\$ 6,500	\$ (1,625)	\$ -	\$ 4,875

Depreciation expense was charged to the sewer function.

NOTE 7 LONG-TERM LIABILITIES

Primary Government

Business-Type Activities

The following changes occurred in long-term liabilities for the year ended 2021:

Water Fund	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 8,790,000	\$ -	\$ 699,000	\$ 8,091,000	\$ 717,000
Total Business-Type Activities	\$ 8,790,000	\$ -	\$ 699,000	\$ 8,091,000	\$ 717,000

CITY OF PARSHALL

Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2021 is as follows:

Water Fund		
Year Ending Dec 31	Bonds Payable	
	Principal	Interest
2022	\$ 717,000	\$ 240,490
2023	739,000	222,000
2024	760,000	202,208
2025	777,000	181,242
2026	807,000	159,120
2027 - 2031	3,891,000	425,198
2032 - 2036	400,000	15,800
Total	\$ 8,091,000	\$ 1,446,058

NOTE 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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 inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$5,000,000 per occurrence for general liability and for automobile, and \$949,358 for public assets (mobile equipment and portable property).

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,935,040 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has worker’s compensation with the North Dakota Workforce Safety and Insurance.

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

NOTE 9 DEFICIT FUND BALANCES

Governmental Activities

The City had the following deficit fund balances at December 31, 2021:

Governmental Activities	Deficit Amount
Special Revenue Funds	
Highway Distribution	\$ (1,484,509)
Rock Museum	(142,826)
Library	(78,370)
Cemetery	(2,625)
Social Security	(230,653)
Golf Course	(74,114)
Capital Projects Fund	
Building Fund	(3,390,912)
Total Governmental Funds	\$ (5,404,009)

CITY OF PARSHALL

Notes to the Financial Statements – Continued

Business-Type Activities

The City had the following deficit fund balances at December 31, 2021:

Business-Type Activities	Deficit Amount
Water Funds	
Sewer Extension Proj 2012	\$ (11,578,202)
Non Major Funds	
Garbage	(23,501)
Total Enterprise Funds	\$ (11,601,703)

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

NOTE 10 COMMITMENTS

Business-Type Activities

The City had the following commitments at December 31, 2021:

Project	Original Contract	Change Orders	Total Contract with Change Orders	Total Completed	Retainage	Remaining Balance includes Retainages	% Complete
Water Tower Project	\$ 2,640,000	(20,249)	2,619,751	\$ 2,447,751	\$ 244,775	\$ 416,775	93.43%

CITY OF PARSHALL

Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Taxes	\$ 121,694	\$ 121,694	\$ 130,774	\$ 9,080
Licenses, Permits and Fees	24,500	24,500	31,349	6,849
Intergovernmental	577,350	577,350	1,835,162	1,257,812
Interest	4,500	4,500	991	(3,509)
Miscellaneous	22,325	22,325	34,982	12,657
Total Revenues	\$ 750,369	\$ 750,369	\$ 2,033,258	\$ 1,282,889
EXPENDITURES				
Current:				
General Government	\$ 471,785	\$ 471,785	\$ 331,709	\$ 140,076
Culture and Recreation	12,400	12,400	26,305	(13,905)
Total Expenditures	\$ 484,185	\$ 484,185	\$ 358,014	\$ 126,171
Excess (Deficiency) of Revenues Over Expenditures	\$ 266,184	\$ 266,184	\$ 1,675,244	\$ 1,409,060
OTHER FINANCING SOURCES (USES)				
Transfers Out	\$ (1,200,000)	\$ (1,200,000)	\$ -	\$ 1,200,000
Net Change in Fund Balances	\$ (933,816)	\$ (933,816)	\$ 1,675,244	\$ 2,609,060
Fund Balances - January 1	\$12,025,199	\$12,025,199	\$12,025,199	\$ -
Fund Balances - December 31	\$11,098,341	\$11,098,341	\$13,707,401	\$ 2,609,060

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

CITY OF PARSHALL

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 41,767	\$ 41,767	\$ 30,115	\$ (11,652)
Intergovernmental	49,518	49,518	80,884	31,366
Charge for Service	3,300	3,300	6,276	2,976
Miscellaneous Revenue	18,700	18,700	6,020	(12,680)
Total Revenues	\$ 113,285	\$ 113,285	\$ 123,295	\$ 10,010
EXPENDITURES				
Current:				
General Government	\$ 22,710	\$ 22,710	\$ 48,366	\$ (25,656)
Public Works	476,050	476,050	310,663	165,387
Culture & Recreation	78,475	78,475	49,586	28,889
Total Expenditures	\$ 577,235	\$ 577,235	\$ 408,615	\$ 168,620
Excess (Deficiency) of Revenues Over Expenditures	\$ (463,950)	\$ (463,950)	\$ (285,320)	\$ 178,630
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 563,878	\$ 563,878	\$ -	\$ (563,878)
Transfers Out	(27,270)	(27,270)	-	27,270
Total Other Financing Sources and Uses	\$ 536,608	\$ 536,608	\$ -	\$ (536,608)
Net Change in Fund Balances	\$ 72,658	\$ 72,658	\$ (285,320)	\$ (357,978)
Fund Balances - January 1	\$ (1,540,372)	\$ (1,540,372)	\$ (1,540,372)	\$ -
Fund Balances - December 31	\$ (1,467,714)	\$ (1,467,714)	\$ (1,825,692)	\$ (357,978)

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

CITY OF PARSHALL

Notes to the Supplementary Information
For the Year Ended December 31, 2021

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund and each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

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

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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

Board of City Councilmembers
City of Parshall
Parshall, North Dakota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Parshall as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Parshall's basic financial statements, and have issued our report thereon dated May 23, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying *schedule of audit findings* as items 2021-001, 2021-003, and 2021-004 that we consider to be material weaknesses.

CITY OF PARSHALL

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Parshall's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of audit findings* as item 2021-002.

City of Parshall's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Parshall's response to the findings identified in our audit and described in the accompanying *schedule of audit findings*. The City of Parshall's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 23, 2022

CITY OF PARSHALL

Summary of Auditor's Results
For the Year Ended December 31, 2021

Financial Statements

Type of Report Issued:

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

Internal control over financial reporting

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

CITY OF PARSHALL

Schedule of Audit Findings

For the Year Ended December 31, 2021

2021-001 SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The City Auditor is responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of material misstatement to the City of Parshall's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the City of Parshall.

Criteria

According to the COSO framework, proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the city.

Prior Recommendation

Yes

Recommendation

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

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and bank reconciliations.
- Include the board in reviewing credit memos, manual adjustments, etc.

City of Parshall's Response

The City is aware of the condition and segregates duties whenever possible. The City agrees with the findings.

2021-002 LACK OF SUPPORTING DOCUMENTATION FOR BUDGET ESTIMATES – MATERIAL NONCOMPLIANCE

Condition

The City of Parshall did not maintain supporting documentation for year-end cash, transfers, and revenues for the 2021 General Fund and Special Revenue Fund budgets.

Effect

The estimates for year-end cash, transfers, and revenues are key components in the tax levy calculation in any budget year. Thus, the City of Parshall may have improperly calculated the tax levies for the general fund and special revenue fund.

Cause

The City of Parshall did not maintain supporting documentation for the estimates included in the budgets.

Criteria

N.D.C.C. §57-15-31(1) states, “The amount to be levied by any county, city, township, school district, park district, or other municipality authorized to levy taxes must be computed by deducting from the amount of estimated expenditures for the current fiscal year as finally determined, plus the required reserve fund determined upon by the governing board from the past experience of the taxing district, the total of the following items:

- a. The available surplus consisting of the free and unencumbered cash balance;
- b. Estimated revenues from sources other than direct property taxes;
- c. The total estimated collections from tax levies for previous years;
- d. Expenditures that must be made from bond sources;
- e. The amount of distributions received from an economic growth increment pool under section 57-15-61; and
- f. The estimated amount to be received from payments in lieu of taxes on a project under section 40-57.1-03.”

Prior Recommendation

No

Recommendation

We recommend the City of Parshall ensure its compliance with all aspects of N.D.C.C. §57-15-31(1). We further recommend the City of Parshall review budgeted estimates carefully to ensure supporting documentation exists to support the estimated amounts used in the preliminary and final budgets prior to approval.

City of Parshall’s Response

The City agrees with the findings. City will create a worksheet to define A-F for year-end closeout.

2021-003 CAPITAL ASSET MAINTENANCE– MATERIAL WEAKNESS

Condition

During testing, it was found that street improvement projects in the amount of \$2,061,023 were not included in the 2021 capital asset listing. A prior period adjustment to the financial statements was proposed and accepted by the City of Parshall.

Effect

The financial statements may have been materially misstated if the capital assets had not been adjusted during the audit.

Cause

The City of Parshall's management does not have sufficient procedures in place to ensure the capital asset listing used to compile the financial statements is accurate and free of material misstatement.

Criteria

The City of Parshall is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No

Recommendation

We recommend the City of Parshall review the capital asset additions and deletions list at the end of the year to ensure that the capital asset listing is accurate and free of material misstatement.

City of Parshall's Response

The Capital assets would be updated when the annual audit by an independent firm would have been completed in February 2022, as this project was completed last year. City Agrees with findings.

2021-004 MATERIAL AUDIT ADJUSTMENTS – MATERIAL WEAKNESS

Condition

The City of Parshall included expenditures in the amount of \$126,349 in its general ledger that were voided after the last audit period. Adjustments to the general ledger were proposed and accepted by the City of Parshall.

Effect

The financial statements may have been materially misstated if adjustments have not been made for voided checks in the general ledger.

Cause

The City of Parshall’s management does not adjust expenditures in the general ledger, for voided checks, in a timely manner.

Criteria

The City of Parshall is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No

Recommendation

We recommend that the City of Parshall void checks timely in the general ledger to ensure accurate reporting of cash and expenditures in each fund.

City of Parshall’s Response

The City of Parshall has an independent audit every year, at which time the outstanding checks are voided and reconciled. The City will void checks throughout the year as per recommendation. City Agrees with findings.

STATE AUDITOR
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GOVERNANCE COMMUNICATION

May 23, 2022

Board of City Councilmembers
City of Parshall
Parshall, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Parshall, North Dakota, for the year ended December 31, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 7, 2022. Professional standards also require that we communicate to you with the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Parshall are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the City of Parshall during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of capital assets is based on past history of each classification of capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

	<u>Client Provided Adjustments</u>		<u>Audit Adjustments</u>		<u>Total Adjustment</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Governmental Activities						
<u>To record net position PPA</u>						
Capital Assets, Net	-	-	2,061,023	-	2,061,023	-
Cash	6,958	-	-	-	6,958.00	-
Net Position - Jan 1	-	6,958	-	2,061,023	-	2,067,981
<u>To record depreciation expense</u>						
Depreciation Expense	-	-	87,091	-	87,091	-
Accumulated Depreciation	-	-	-	87,091	-	87,091
<u>To record capital asset additions</u>						
Capital Assets	-	-	59,841	-	59,841	-
Expenditures	-	-	-	59,841	-	59,841
General Fund						
<u>To record prior period errors PPA</u>						
Cash	6,958	-	-	-	6,958	-
Fund Balance - Jan 1	-	6,958	-	-	-	6,958
<u>To record voids</u>						
Cash	-	-	9,298	-	9,298	-
Expenditures	-	-	-	9,298	-	9,298
<u>To record change in due from other funds</u>						
Cash	-	-	114,682	-	114,682	-
Due from other funds	-	-	-	114,682	-	114,682
Special Revenue Fund						
<u>To record voids</u>						
Cash	-	-	2,369	-	2,369	-
Expenditures	-	-	-	2,369	-	2,369
Business Type Activities						
<u>To record capital asset PPA</u>						
Capital Assets, Net	117,313	-	-	-	117,313	-
Net Position - Jan 1	-	117,313	-	-	-	117,313
<u>To record change in due to other funds</u>						
Due to Other Funds	-	-	114,682	-	114,682	-
Net Position - Unrestricted	-	-	-	114,682	-	114,682
Water Fund						
<u>To record voids</u>						
Cash	-	-	114,682	-	114,682	-
Expenditures	-	-	-	114,682	-	114,682
<u>To record capital asset PPA</u>						
Capital Assets, Net	117,313	-	-	-	117,313	-
Net Position - Jan 1	-	117,313	-	-	-	117,313
Fiduciary Activities						
<u>To record custodial funds PPA</u>						
Cash	72,059	-	-	-	72,059	-
Net Position - Jan 1	-	72,059	-	-	-	72,059
Component Unit - Airport						
<u>To record Airport PPA</u>						
Net Position - Jan 1	-	-	1,481,164	-	1,481,164	-
Capital Assets	-	-	-	1,198,372	-	1,198,372
Cash	-	-	-	282,792	-	282,792

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We were engaged to report on *budgetary comparison schedules, and notes to the supplementary information*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
May 23, 2022



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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