

AUDIT REPORT

CITY OF PARSHALL
Parshall, North Dakota

For the Year Ended December 31, 2022

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF PARSHALL
Parshall, North Dakota

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CITY OF PARSHALL
Parshall, North Dakota

CITY OFFICIALS

Kyle Christianson	Mayor
Tom Huus	Council President
Robert Morenski	Council Vice-President
Bernadine Jorgenson	Council Member
Barry Martens	Council Member
Kelly Woessner	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Parshall
Parshall, North Dakota

Report on the Audit of Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Parshall as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the city as of December 31, 2022, 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 for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – 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.

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, and for 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 the city's ability to continue as a going concern for twelve months beyond 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 opinions. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement 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'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the city'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.

Supplementary 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 and the schedule of fund activity arising from cash transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the city's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

September 1, 2023

CITY OF PARSHALL
Parshall, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
ASSETS:				
Cash, Cash Equivalents and Investments	2,660,270.93	291,187.36	2,951,458.29	105,104.82
Interfund Receivables	7,792,167.05		7,792,167.05	
Capital Assets (net of accumulated depreciation):				
Land	59,600.00	850,000.00	909,600.00	
Buildings and Infrastructure	12,803,391.00	36,722,816.00	49,526,207.00	997,044.00
Machinery and Vehicles	239,131.00	32,341.00	271,472.00	
Total Capital Assets	13,102,122.00	37,605,157.00	50,707,279.00	997,044.00
Total Assets	23,554,559.98	37,896,344.36	61,450,904.34	1,102,148.82
LIABILITIES:				
Interfund Payables		7,792,167.05	7,792,167.05	
Long-Term Liabilities:				
Due Within One Year:				
Revenue Bonds Payable		739,000.00	739,000.00	
Due After One Year:				
Revenue Bonds Payable		6,635,000.00	6,635,000.00	
Total Liabilities		15,166,167.05	15,166,167.05	
NET POSITION:				
Net Investment in Capital Assets	13,102,122.00	30,231,157.00	43,333,279.00	997,044.00
Restricted for:				
Debt Service		1,393,958.75	1,393,958.75	
Water Plant Construction		115,702.11	115,702.11	
Special Purposes	40,683.31		40,683.31	
Unrestricted	10,411,754.67	(9,010,640.55)	1,401,114.12	105,104.82
Total Net Position	23,554,559.98	22,730,177.31	46,284,737.29	1,102,148.82

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Net Activities - Modified Cash Basis
December 31, 2022

Functions/Programs	Net (Expense) Revenue and Change in Net Position					
	Program Revenues			Primary Government		Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Airport Authority
Primary Government:						
<u>Governmental Activities:</u>						
General Government	588,959.34	115,119.99		(473,839.35)	(473,839.35)	(473,839.35)
Streets and Public Works	476,386.49		58,918.08	(417,468.41)	(417,468.41)	(417,468.41)
Urban and Economic Development	3,862.08			(3,862.08)	(3,862.08)	(3,862.08)
Culture and Recreation	120,124.73	3,909.50	4,500.00	(111,715.23)	(111,715.23)	(111,715.23)
Other	8,110.22			(8,110.22)	(8,110.22)	(8,110.22)
Total Governmental Activities	1,197,442.86	119,029.49	63,418.08	(1,014,995.29)	(1,014,995.29)	(1,014,995.29)
<u>Business-Type Activities:</u>						
Water	2,084,857.59	2,107,427.43	418,051.64		440,621.48	440,621.48
Sewer	26,995.55	63,613.54			36,617.99	36,617.99
Garbage	85,039.50	75,215.83			(9,823.67)	(9,823.67)
Total Business-Type Activities	2,196,892.64	2,246,256.80	418,051.64		467,415.80	467,415.80
Total Primary Government	3,394,335.50	2,365,286.29	481,469.72	(1,014,995.29)	467,415.80	(547,579.49)
Component Unit:						
Airport Authority	518,748.28	10,368.57	222,574.42			(285,805.29)
<u>General Revenues:</u>						
Taxes:						
Property taxes; levied for general purposes				134,568.08		134,568.08
Property taxes; levied for special purposes				17,208.07		17,208.07
Restaurant and lodging taxes				3,475.93		3,475.93
Oil and gas production taxes				2,193,394.73		2,193,394.73
Homestead tax credits				78.61		78.61
Cigarette tax				1,813.19		1,813.19
Intergovernmental revenue not restricted to specific programs				93,000.32		93,000.32
Earnings on investments and other revenue				55,239.07	3,833.12	59,072.19
Transfers				1,557,800.00	(1,557,800.00)	-
Total General Revenues and Transfers				4,056,578.00	(1,553,966.88)	2,502,611.12
Change in Net Position				3,041,582.71	(1,086,551.08)	1,955,031.63
Net Position - January 1				20,524,644.27	23,931,410.39	44,456,054.66
Prior Period Adjustment - Note 12				(11,667.00)	(114,682.00)	(126,349.00)
Net Position - January 1, as restated				20,512,977.27	23,816,728.39	44,329,705.66
Net Position - December 31				23,554,559.98	22,730,177.31	46,284,737.29

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

CITY OF PARSHALL
Parshall, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2022

	Major Funds			Other	Total
	General	Highway Distribution	Building Construction	Governmental Funds	Governmental Funds
<u>ASSETS:</u>					
Cash, Cash Equivalents and Investments	2,467,202.96			193,067.97	2,660,270.93
Interfund Receivables	13,482,912.13				13,482,912.13
Total Assets	15,950,115.09	-	-	193,067.97	16,143,183.06
<u>LIABILITIES AND FUND BALANCES</u>					
<u>Liabilities:</u>					
Interfund Payables		1,699,626.66	3,390,912.46	600,205.96	5,690,745.08
<u>Fund Balances:</u>					
Restricted for:					
General Government				12,413.41	12,413.41
Culture and Recreation				6,958.22	6,958.22
Conservation and Economic Dvlpmnt.				21,311.68	21,311.68
Assigned to:					
Streets and Public Works				152,384.66	152,384.66
Unassigned	15,950,115.09	(1,699,626.66)	(3,390,912.46)	(600,205.96)	10,259,370.01
Total Fund Balances	15,950,115.09	(1,699,626.66)	(3,390,912.46)	(407,137.99)	10,452,437.98
Total Liabilities and Fund Balances	15,950,115.09	-	-	193,067.97	16,143,183.06

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

CITY OF PARSHALL
Parshall, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2022

Total Fund Balances for Governmental Funds		10,452,437.98
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	17,228,538.00	
Less Accumulated Depreciation	<u>(4,126,416.00)</u>	
Net Capital Assets		<u>13,102,122.00</u>
Total Net Position of Governmental Activities		<u>23,554,559.98</u>

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2022

	Major Funds			Other	Total
	General	Highway Distribution	Building Construction	Governmental Funds	Governmental Funds
Revenues:					
Taxes	134,568.08			15,723.88	150,291.96
Special Assessments				4,960.12	4,960.12
Licenses, Permits and Fees	115,119.99				115,119.99
Intergovernmental	2,288,280.29	58,918.08		4,506.56	2,351,704.93
Charges for Services				3,909.50	3,909.50
Miscellaneous	50,567.78	998.36		3,672.93	55,239.07
Total Revenues	2,588,536.14	59,916.44	-	32,772.99	2,681,225.57
Expenditures:					
Current:					
General Government	329,001.93			34,702.41	363,704.34
Streets and Public Works		275,034.49			275,034.49
Conservation and Economic Dvlpmnt.				3,862.08	3,862.08
Culture and Recreation				57,204.73	57,204.73
Other	562.48			7,547.74	8,110.22
Capital Outlay		1,557,800.00			1,557,800.00
Total Expenditures	329,564.41	1,832,834.49	-	103,316.96	2,265,715.86
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,258,971.73	(1,772,918.05)	-	(70,543.97)	415,509.71
Other Financing Sources:					
Transfers In		1,557,800.00			1,557,800.00
Net Change in Fund Balances	2,258,971.73	(215,118.05)	-	(70,543.97)	1,973,309.71
Fund Balance - January 1	13,707,399.58	(1,484,508.61)	(3,390,912.46)	(341,183.24)	8,490,795.27
Prior Period Adjustment - Note 12	(16,256.22)			4,589.22	(11,667.00)
Fund Balance - January 1, as Restated	13,691,143.36	(1,484,508.61)	(3,390,912.46)	(336,594.02)	8,479,128.27
Fund Balance - December 31	15,950,115.09	(1,699,626.66)	(3,390,912.46)	(407,137.99)	10,452,437.98

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

CITY OF PARSHALL
Parshall, 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, 2022

Net Change in Fund Balances - Total Governmental Funds	1,973,309.71
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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	1,557,800.00	
Current Year Depreciation Expense	<u>(489,527.00)</u>	<u>1,068,273.00</u>
Change in Net Position of Governmental Activities		<u><u>3,041,582.71</u></u>

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2022

	Major Enterprise Fund		
	Water	Other Enterprise Funds	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents		291,187.36	291,187.36
Noncurrent Assets:			
Capital Assets (net of accumulated depreciation):			
Land	850,000.00		850,000.00
Buildings and Infrastructure	36,719,566.00	3,250.00	36,722,816.00
Machinery and Vehicles	32,341.00		32,341.00
Total Noncurrent Assets	37,601,907.00	3,250.00	37,605,157.00
Total Assets	37,601,907.00	294,437.36	37,896,344.36
LIABILITIES			
Current Liabilities:			
Interfund Payables	7,758,842.15	33,324.90	7,792,167.05
Revenue Bonds Payable	739,000.00		739,000.00
Total Current Liabilities	8,497,842.15	33,324.90	8,531,167.05
Noncurrent Liabilities:			
Revenue Bonds Payable	6,635,000.00		6,635,000.00
Total Liabilities	15,132,842.15	33,324.90	15,166,167.05
NET POSITION			
Net Investment in Capital Assets	30,227,907.00	3,250.00	30,231,157.00
Restricted for Debt Service	1,393,958.75		1,393,958.75
Restricted for Water Plant Construction	115,702.11		115,702.11
Unrestricted	(9,268,503.01)	257,862.46	(9,010,640.55)
Total Net Position	22,469,064.85	261,112.46	22,730,177.31

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2022

	Major Enterprise Fund		Other Enterprise Funds	Total Enterprise Funds
	Water			
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Charges	658,415.83			658,415.83
Sewer Charges		63,613.54		63,613.54
Garbage Charges		75,138.33		75,138.33
Bulk Water Sales	1,449,011.60			1,449,011.60
Other Charges		77.50		77.50
Total Operating Revenues	2,107,427.43	138,829.37		2,246,256.80
<u>Operating Expenses:</u>				
Salaries and Wages	139,230.25			139,230.25
Health Insurance	28,771.40			28,771.40
Employee Retirement	9,746.12			9,746.12
Chemicals	20,625.91			20,625.91
Utilities	221,468.92	13,345.55		234,814.47
Repairs and Maintenance	27,915.33	12,025.00		39,940.33
Water Operating	47,830.66			47,830.66
Garbage Operations		85,039.50		85,039.50
Depreciation	1,338,705.00	1,625.00		1,340,330.00
Total Operating Expenses	1,834,293.59	112,035.05		1,946,328.64
Operating Income (Loss)	273,133.84	26,794.32		299,928.16
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	1,551.77			1,551.77
American Rescue Plan Act Grant	102,530.72			102,530.72
ND State Water Commission Grant	315,520.92			315,520.92
Miscellaneous Receipts	2,281.35			2,281.35
Debt Service - Interest and Service Charges	(250,564.00)			(250,564.00)
Total Non-Operating Revenues (Expenses)	171,320.76	-		171,320.76
Income (Loss) Before Transfers	444,454.60	26,794.32		471,248.92
Transfers In	1,250,000.00			1,250,000.00
Transfers Out	(2,807,800.00)			(2,807,800.00)
Change in Net Position	(1,113,345.40)	26,794.32		(1,086,551.08)
Net Position - January 1	23,697,092.25	234,318.14		23,931,410.39
Prior Period Adjustment - Note 12	(114,682.00)			(114,682.00)
Net Position - January 1, as Restated	23,582,410.25	234,318.14		23,816,728.39
Net Position - December 31	22,469,064.85	261,112.46		22,730,177.31

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year ended December 31, 2022

	Major Enterprise Fund	Other Enterprise Funds	Total Enterprise Funds
	Water		
<u>Cash flows from operating activities:</u>			
Receipts from customers	2,107,427.43	138,829.37	2,246,256.80
Payments to suppliers	(317,840.82)	(110,410.05)	(428,250.87)
Payments to employees	(139,230.25)		(139,230.25)
Payments on behalf of employees	(38,517.52)		(38,517.52)
Net cash provided (used) by operating activities	1,611,838.84	28,419.32	1,640,258.16
<u>Cash flows from noncapital financing activities:</u>			
Miscellaneous receipts	2,281.35		2,281.35
Transfers in	1,250,000.00		1,250,000.00
Transfers out	(2,807,800.00)		(2,807,800.00)
Interfund loan transaction	924,890.40	9,823.67	934,714.07
Net cash provided (used) by capital and related financing activities	(630,628.25)	9,823.67	(620,804.58)
<u>Cash flows from capital and related financing activities:</u>			
American Rescue Plan Act grant received	102,530.72		102,530.72
ND State Water Commission grant received	315,520.92		315,520.92
Streets and utility projects	(433,250.00)		(433,250.00)
Principal payments	(717,000.00)		(717,000.00)
Interest and service charges	(250,564.00)		(250,564.00)
Net cash provided (used) by capital and related financing activities	(982,762.36)	-	(982,762.36)
<u>Cash flows from investing activities:</u>			
Interest income	1,551.77		1,551.77
Net increase (decrease) in cash and cash equivalents	-	38,242.99	38,242.99
Cash and cash equivalents, January 1	-	252,944.37	252,944.37
Cash and cash equivalents, December 31	-	291,187.36	291,187.36
 <u>Reconciliation of Operating Income to Net Cash Provided (used) by Operating Activities:</u>			
Operating income (Loss)	273,133.84	26,794.32	299,928.16
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>			
Depreciation expense	1,338,705.00	1,625.00	1,340,330.00
Net cash provided (used) by operating activities	1,611,838.84	28,419.32	1,640,258.16

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2022

	Custodial Fund
	<hr/>
<u>Assets:</u>	
Cash and Investments	<u>73,335.60</u>
 <u>Net Position:</u>	
Restricted for:	
Organizations and Other Governments	<u>73,335.60</u>

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

CITY OF PARSHALL
Parshall, North Dakota

Statement of Changes in Fiduciary Net Position
Modified Cash Basis - Fiduciary Fund
December 31, 2022

	<u>Custodial Fund</u>
<u>Additions:</u>	
Property tax collections for other governments	<u>73,484.65</u>
<u>Deductions:</u>	
Payment of property taxes to other governments	<u>75,095.97</u>
Change in Net Position	<u>(1,611.32)</u>
Net Position - January 1	<u>74,946.92</u>
Net Position - December 31	<u><u>73,335.60</u></u>

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

CITY OF PARSHALL
Parshall, North Dakota

Notes to the Financial Statements
December 31, 2022

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, the following is a brief review of each potential component unit addressed defining the government's reporting entity.

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

Parshall Airport Authority: The Parshall Airport Authority's governing board is appointed by the city's governing board. The city's governing body has the authority to disapprove, amend, or approve the airport budget. The airport has the authority to issue its own debt.

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

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the city's funds, 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 investment 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.

Highway Distribution. This fund accounts for the accumulation of the highway distribution tax to be used for street repairs and maintenance.

Building Construction. This fund accounts for financial resources dedicated to the renovation of the city hall building and other future construction projects.

The city reports the following major enterprise fund:

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 type of fiduciary fund:

Custodial Fund: This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's custodial fund is used to account for various deposits of the Parshall Airport.

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 financial statements would be presented on the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

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

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings and Infrastructure	25 to 100 years
Machinery and Vehicles	7 to 20 years

F. 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.

G. 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.

H. Interfund Transactions

In the governmental and proprietary fund financial 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.

I. 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, 2022 the city's carrying amount of deposits was \$3,024,794 and the bank balance was \$3,527,200. Of the bank balance, \$430,650 was covered by Federal Depository Insurance. The remaining balance of \$3,096,550 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

At December 31, 2022, the city held certificates of deposit in the amount of \$180,650 which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2022 are as follows:

	Receivable Fund	Payable Fund
General Fund	13,482,912.13	
Highway Distribution		1,699,626.66
Building Construction		3,390,912.46
Social Security		265,355.31
Cemetery		2,778.79
Rock Museum		170,935.70
Library		87,021.93
Golf Course		74,114.23
Water		7,758,842.15
Garbage		33,324.90

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2022:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	59,600			59,600
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	14,756,733	1,557,800		16,314,533
Machinery and Vehicles	854,405			854,405
Total	15,611,138	1,557,800	-	17,168,938
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	3,073,375	437,767		3,511,142
Machinery and Vehicles	563,514	51,760		615,274
Total	3,636,889	489,527	-	4,126,416
Total capital assets being depreciated, net	11,974,249	1,068,273	-	13,042,522
Governmental Activities Capital Assets, Net	12,033,849	1,068,273	-	13,102,122

	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	850,000			850,000
Construction in Progress	2,536,599	433,250	2,969,849	-
Total capital assets not being depreciated	3,386,599	433,250	2,969,849	850,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	45,024,627	2,969,849		47,994,476
Machinery and Vehicles	370,139			370,139
Total	45,394,766			48,364,615
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	9,938,043	1,333,617		11,271,660
Machinery and Vehicles	331,085	6,713		337,798
Total	10,269,128	1,340,330		11,609,458
Total capital assets being depreciated, net	35,125,638	(1,340,330)		36,755,157
Business-Type Activities Capital Assets, Net	38,512,237	(907,080)	2,969,849	37,605,157

Depreciation expense was charged to functions/programs of the city as follows for the year ended December 31, 2022:

<u>Governmental Activities:</u>	
General Government	225,255
Public Safety	201,352
Streets and Public Works	62,920
Total	489,527
<u>Business-type Activities:</u>	
Water	1,338,705
Sewer	1,625
Total	1,340,330

The following is a summary of changes in capital assets reported in the component unit for the year ended December 31, 2022:

	Balance January 1	Increases	Decreases	Balance December 31
Discretely Presented component Unit:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,753,624			1,753,624

Less accumulated depreciation for:

Buildings and Infrastructure	655,916	100,664		756,580
Discretely Presented Component Unit Capital Assets, Net	1,097,708	(100,664)	-	997,044

Depreciation expense was charged to functions/programs of the component as follows for the year ended December 31, 2022:

Airport Authority	100,664
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Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2022, the following changes occurred in the liabilities reported in the long-term liabilities of the city:

Business-Type Activities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Revenue Bonds Payable	8,091,000		717,000	7,374,000	739,000

Outstanding debt at December 31, 2022 consists of the following:

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, 2022 are as follows:

\$2,887,500 Water Revenue Bonds, Series 2017, due in annual installments of \$190,000 to \$225,000 through September 1, 2030; interest is at 1.5%.	1,705,000.00
\$5,945,000 Sewer Revenue Bonds, Series 2012A, due in annual installments of \$265,000 to \$400,000 through September 1, 2032; interest is at 2.25% to 3.95%.	3,390,000.00
\$4,428,000 Water and Sewer Revenue Refunding Bonds, Series 2017B-D, due in annual installments of \$226,000 to \$310,000 through September 1, 2031; interest is at 3.25%.	2,279,000.00
Total Revenue Bonds Payable	7,374,000.00

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

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2023	739,000.00	222,000.02
2024	760,000.00	202,207.50
2025	777,000.00	181,242.50
2026	807,000.00	159,120.02
2027	827,000.00	135,767.50
2028-2032	3,464,000.00	305,230.04
Total	<u>7,374,000.00</u>	<u>1,205,567.58</u>

Note 7 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, 2022:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Water: Debt Service Reserve	1,250,000.00	
Water: Water Operating		1,250,000.00
To subsidize debt service payments.		
Highway Distribution	1,557,800.00	
Water: Capital Projects		1,557,800.00
To transfer funds paid for street project to highway distribution fund.		

Note 8 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2022:

<u>Special Revenue Funds</u>	
Highway Distribution	(1,699,626.66)
Social Security	(265,355.31)
Rock Museum	(170,935.70)
Cemetery	(2,778.79)
Library	(87,021.93)
Golf Course	(74,114.23)
<u>Capital Projects Fund</u>	
Building Construction	(3,390,912.46)
<u>Enterprise Funds</u>	
Water	(7,758,842.15)
Garbage	(33,324.90)

The city plans to eliminate these deficits with future collections and/or transfers from other funds.

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk

management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$5,000,000 per occurrence for general liability and automobile; and \$949,358 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 \$1,805,173 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 10 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, 2022.

Note 11 PENSION PLAN

The city provides benefits for all 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. During the year ended December 31, 2022, the city contributed \$30,524.90.

Note 12 PRIOR PERIOD ADJUSTMENTS

Prior period adjustments were made to adjust beginning cash balances to actual and to reclassify the Recreation Fund as a Special Revenue fund.

	<u>Governmental Activities</u>
Net Position as previously reported	20,524,644.27
Adjustments to restate the January 1, 2022 balance:	
Cash, cash equivalents and investments	<u>(11,667.00)</u>
Net Position, January 1, 2022 as restated	<u>20,512,977.27</u>

	<u>Business-Type Activities</u>
Net Position as previously reported	23,931,410.39
Adjustments to restate the January 1, 2022 balance:	
Cash and cash equivalents	<u>(114,682.00)</u>
Net Position, January 1, 2022 as restated	<u>23,816,728.39</u>
	<u>Governmental Funds</u>
Fund Balance as previously reported:	8,490,795.27
Adjustments to restate the January 1, 2022 balance:	
Cash, cash equivalents and investments	<u>(11,667.00)</u>
Fund Balance, January 1, 2022 as restated	<u>8,479,128.27</u>

CITY OF PARSHALL
Parshall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	139,446.15	134,568.08	(4,878.07)
Licenses, Permits and Fees	47,600.00	115,119.99	67,519.99
Intergovernmental	1,096,900.00	2,288,280.29	1,191,380.29
Miscellaneous	2,525.00	50,567.78	48,042.78
Total Revenues	1,286,471.15	2,588,536.14	1,302,064.99
<u>Expenditures:</u>			
Current:			
General Government	580,035.00	329,001.93	251,033.07
Other	75,500.00	562.48	74,937.52
Total Expenditures	655,535.00	329,564.41	325,970.59
Net Change in Fund Balances	630,936.15	2,258,971.73	1,628,035.58
Fund Balance - January 1	13,707,399.58	13,707,399.58	-
Prior Period Adjustment - Note 12	(16,256.22)	(16,256.22)	-
Fund Balance - January 1, as Restated	13,691,143.36	13,691,143.36	-
Fund Balance - December 31	14,322,079.51	15,950,115.09	1,628,035.58

CITY OF PARSHALL
Parshall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Highway Distribution Fund
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>			
Intergovernmental	72,000.00	58,918.08	(13,081.92)
Other	5,000.00	998.36	(4,001.64)
Total Revenues	77,000.00	59,916.44	(17,083.56)
<u>Expenditures:</u>			
Current:			
Streets and Public Works	408,925.00	275,034.49	133,890.51
Capital Outlay		1,557,800.00	(1,557,800.00)
Total Expenditures	408,925.00	1,832,834.49	(1,423,909.49)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(331,925.00)	(1,772,918.05)	(1,440,993.05)
<u>Other Financing Sources:</u>			
Transfers In	8,333.77	1,557,800.00	1,549,466.23
Net Change in Fund Balances	(323,591.23)	(215,118.05)	108,473.18
Fund Balance - January 1	(1,484,508.61)	(1,484,508.61)	
Fund Balance - December 31	(1,808,099.84)	(1,699,626.66)	108,473.18

CITY OF PARSHALL
Parshall, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2022

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2022.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following fund for the year ended December 31, 2022:

<u>Special Revenue Fund</u>	
Highway	(1,423,909.49)

CITY OF PARSHALL
Parshall, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2022

	Balance 1-1-2022	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-2022
Major Governmental Funds:						
General Fund	13,691,143.36	2,588,536.14			329,564.41	15,950,115.09
Highway Distribution	(1,484,508.61)	59,916.44	1,557,800.00		1,832,834.49	(1,699,626.66)
Building Construction	(3,390,912.46)					(3,390,912.46)
Total Major Governmental Funds	8,815,722.29	2,648,452.58	1,557,800.00	-	2,162,398.90	10,859,575.97
Non-Major Governmental Funds:						
Social Security	(230,652.90)				34,702.41	(265,355.31)
Cemetery	(2,625.21)	7,394.16			7,547.74	(2,778.79)
Rock Museum	(142,826.04)	9,457.22			37,566.88	(170,935.70)
Forestry	2,263.55					2,263.55
City Property Upkeep	5,777.54					5,777.54
Planning	6,635.87					6,635.87
Library	(78,369.64)	7,485.56			16,137.85	(87,021.93)
Special Assessment - City Property	147,424.54	4,960.12				152,384.66
Golf Course	(74,114.23)					(74,114.23)
Recreation	6,958.22					6,958.22
Restaurant and Lodging Tax	22,934.28	3,475.93			7,362.08	19,048.13
Total Non-Major Governmental Funds	(336,594.02)	32,772.99	-	-	103,316.96	(407,137.99)
Total Governmental Funds	8,479,128.27	2,681,225.57	1,557,800.00	-	2,265,715.86	10,452,437.98
Major Enterprise Fund:						
Water:						
Water Operating	3,518,493.41	2,109,708.78		1,250,000.00	495,493.73	3,882,708.46
Debt Service Reserve	1,026,320.98	1,551.77	1,250,000.00		967,564.00	1,310,308.75
Water Bonds Reserve	83,650.00					83,650.00
Water Plant Construction	18,786.11				84.00	18,702.11
Construction Reserve	97,000.00					97,000.00
Capital Projects	(11,578,202.25)	418,051.64		1,557,800.00	433,260.86	(13,151,211.47)
Total Major Enterprise Fund	(6,833,951.75)	2,529,312.19	1,250,000.00	2,807,800.00	1,896,402.59	(7,758,842.15)
Non-Major Enterprise Funds:						
Sewer	252,944.37	63,613.54			25,370.55	291,187.36
Garbage	(23,501.23)	75,215.83			85,039.50	(33,324.90)
Total Non-Major Enterprise Funds	229,443.14	138,829.37	-	-	110,410.05	257,862.46
Total Enterprise Funds	(6,604,508.61)	2,668,141.56	1,250,000.00	2,807,800.00	2,006,812.64	(7,500,979.69)
Fiduciary Fund						
Custodial Fund:						
Airport	74,946.92	73,484.65			75,095.97	73,335.60
Total Primary Government	1,949,566.58	5,422,851.78	2,807,800.00	2,807,800.00	4,347,624.47	3,024,793.89
Discretely Presented Component Unit						
Airport	288,764.21	234,424.89			418,084.28	105,104.82
Total Reporting Entity	2,238,330.79	5,657,276.67	2,807,800.00	2,807,800.00	4,765,708.75	3,129,898.71

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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 Parshall
Parshall, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Parshall, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated September 1, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002, that we consider to be significant deficiencies.

Report on 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the city's response to the findings identified in our audit and 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

September 1, 2023

CITY OF PARSHALL
Parshall, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2022

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
Discretely Presented Component Unit	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. 2022-001 – 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. 2022-002- 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.