

CITY OF DRAYTON
DRAYTON, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

City of Drayton
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CITY OF DRAYTON
LIST OF OFFICIALS
DECEMBER 31, 2023

CITY COUNCIL

Charles Olson	<u>Office</u>
Christopher Passa	Mayor
Michael Larson	
Bret Christenson	
Kerri Van Camp	
Jordan Grundstrom	
Bryanna Halvorson	

EMPLOYEES

Sonia Misialek	City Auditor
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Harold J. Rotunda
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Drayton
Drayton, North Dakota

Report on the Audit of the Financial Statements

Opinions

I have audited the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Drayton, as of and for the year ended December 31, 2023, 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 my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Drayton, as of December 31, 2023, 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

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter-Basis of Accounting

I 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. My opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis described in Note 1, and 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

My objective is 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 my 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 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 an audit in accordance with GAAS and Government Auditing Standards, I:

- * 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'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 my judgment, 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.

I am 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 I identified during the audit.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is 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 GAAS. In my opinion, the schedule of expenditures of federal awards 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, I have also issued my report dated June 3, 2024, on my consideration of the City's internal control over financial reporting and on my 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 my 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 City's internal control over financial reporting and compliance.

Fargo, North Dakota
June 3, 2024

CITY OF DRAYTON
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
DECEMBER 31, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	1,149,986.99	384,050.34	1,534,037.33
Non-current assets:			
Capital assets (net of accumulated d	274,635.37	3,915,891.59	4,190,526.96
Total Assets	1,424,622.36	4,299,941.93	5,724,564.29
LIABILITIES			
Current liabilities:			-
Accounts Payable			-
Long term liabilities			-
Due within one year	15,000.00	49,578.00	64,578.00
Due in more than one year	135,000.00	1,409,422.00	1,544,422.00
Total liabilities	150,000.00	1,459,000.00	1,609,000.00
NET POSITION			
Net investment capital assets	124,635.37	2,456,891.59	2,581,526.96
Restricted for:			-
Capital projects	116,110.82		116,110.82
Debt service	61,644.46		61,644.46
Unrestricted	972,231.71	384,050.34	1,356,282.05
Total net position	1,274,622.36	2,840,941.93	4,115,564.29

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

CITY OF DRAYTON

STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS

YEAR ENDED DECEMBER 31, 2023

		Program Revenues			Revenue & Changes in net position
	Expenses	Charges for Services	Operating grants and Contributions	Capital grants and Contributions	Governmental Activities
Governmental activities:					
General government	158,157.34	3,373.00			(154,784.34)
Public safety	140,564.60				(140,564.60)
Highways and streets	194,620.30	62,263.13	71,049.53		(61,307.64)
Economic development	244,373.70				(244,373.70)
Interest expense	4,258.33			21,588.45	17,330.12
Total Governmental Activities	741,974.27	65,636.13	71,049.53	21,588.45	(583,700.16)
Business-type activities					
Water	571,658.15	513,711.90		603,406.66	545,460.41
Sewer	78,221.03	43,867.48			(34,353.55)
Garbage	134,958.15	149,905.74			14,947.59
Interest expense	32,377.97	56,981.00			24,603.03
					-
Total Business-type activities	817,215.30	764,466.12	-	603,406.66	550,657.48
Total	1,559,189.57	830,102.25	71,049.53	624,995.11	(33,042.68)

	Governmental	Business-type	Total
Net expense	(583,700.16)	550,657.48	(33,042.68)
General Revenues			
Property taxes	245,550.00		245,550.00
Sales taxes	285,661.75		285,661.75
State aid	291,635.80		291,635.80
Interest	6,612.34	-	6,612.34
Other	54,249.60	-	54,249.60
Total General Revenues	883,709.49	-	883,709.49
Transfers in (out)	491,253.05	(491,253.05)	-
Change in Net Position	791,262.38	59,404.43	850,666.81
Net Position- January 1	483,359.98	2,781,537.50	3,264,897.48
Net Position- December 31	1,274,622.36	2,840,941.93	4,115,564.29

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

CITY OF DRAYTON

BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS

DECEMBER 31, 2023

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	165,679.73	922,662.74	-	61,644.46	1,149,986.93
Total Assets	165,679.73	922,662.74	-	61,644.46	1,149,986.93
 LIABILITIES					
Total liabilities	-	-	-	-	-
 FUND BALANCE					
Restricted for					-
Capital projects		116,110.82	-		116,110.82
Debt service				61,644.46	61,644.46
Assigned for Flood Control		237,607.19			237,607.19
Assigned for Economic Development		478,762.61			478,762.61
Assigned for General Government		141,806.97			141,806.97
Unassigned	165,679.73	(51,624.85)		(3.89)	114,050.99
Total fund balance	165,679.73	922,662.74	-	61,640.57	1,149,983.04
Total liabilities and fund balance	165,679.73	922,662.74	-	61,640.57	1,149,983.04

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

CITY OF DRAYTON
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS- MODIFIED CASH BASIS
DECEMBER 31, 2023

Total Fund Balances for Governmental Funds	1,149,986.89
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Total net assets reported for governmental activities in the statement of net assets is different because:

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

Cost of capital assets	1,289,404.11	
Less accumulated depreciation	1,014,768.74	
Net capital assets		274,635.37

Long-term liabilities not due and payable in the current period and, therefore, are not recorded in the governmental funds

Bonds payable	(150,000.00)
SRF Notes payable	-
Notes payable	-

Total Net Position of Governmental Activities	1,274,622.26
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The accompanying notes are an integral part of these financial statements.

CITY OF DRAYTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2023

	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Property taxes	234,372.98	11,177.02			245,550.00
Sales taxes		285,661.75			285,661.75
Special Assessments		-		21,588.45	21,588.45
Intergovernmental	77,967.93	284,717.40			362,685.33
Interest	6,612.34				6,612.34
Charges for services	14,707.36	62,263.13			76,970.49
Other	29,419.81	13,495.43			42,915.24
Total Revenues	363,080.42	657,314.73	-	21,588.45	1,041,983.60
EXPENDITURES:					
Current:					
General government	131,610.14	26,547.20			158,157.34
Public safety	140,564.60				140,564.60
Highways and streets	-	295,392.43			295,392.43
Economic development		244,373.70			244,373.70
Capital outlays	-				-
Debt Service					
Principal				15,000.00	15,000.00
Interest expense				4,258.33	4,258.33
Total Expenditures	272,174.74	566,313.33	-	19,258.33	857,746.40
Excess revenues (expenditures)	90,905.68	91,001.40	-	2,330.12	184,237.20
Other Financing Sources (Uses):					
Transfers in		491,253.05			491,253.05
Transfers out					-
Bond proceeds					-
Total other financing sources and use	-	491,253.05	-	-	491,253.05
Net change in fund balances	90,905.68	582,254.45	-	2,330.12	675,490.25
Fund Balance- January 1	74,774.17	340,408.25	-	59,314.34	474,496.76
Fund Balance- December 31	165,679.85	922,662.70	-	61,644.46	1,149,987.01

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

CITY OF DRAYTON
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2023

Net Change in Fund Balances- Total Governmental Funds	675,490.25
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay 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 outlays exceeded depreciation in the current year.

Current year capital outlay	134,459.00	
Current year depreciation expense	33,686.87	100,772.13

Issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. In the current period these amounts are:

Debt issued, net of related premiums and discounts	-
Principal retirement	15,000.00

Change in Net Position of Governmental Activities	791,262.38
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The accompanying notes are an integral part of these financial statements.

CITY OF DRAYTON
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2023

	Water & Sewer	Sanitation	Total
ASSETS			
Current assets			
Cash, cash equivalents and investments	376,487.37	7,562.97	384,050.34
Non-current assets			
Capital assets (net of accumulated depreciation)	3,915,891.59		3,915,891.59
Total Assets	4,292,378.96	7,562.97	4,299,941.93
LIABILITIES			
Current liabilities:			-
Accounts Payable			-
Long term liabilities			-
Due within one year:	49,578.00		49,578.00
Due in more than one year	1,409,422.00		1,409,422.00
Total liabilities	1,459,000.00	-	1,459,000.00
NET POSITION			
Net investment in capital assets	2,456,891.59	-	2,456,891.59
Restricted for:	-		-
Capital projects	-		-
Debt service	-		-
Unrestricted	376,487.37	7,562.97	384,050.34
Total net position	2,833,378.96	7,562.97	2,840,941.93

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

CITY OF DRAYTON
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2023

	Water & Sewer	Sanitation	Total
OPERATING REVENUE			
Charges for services	614,560.38	149,905.74	764,466.12
OPERATING EXPENSES			
Salaries and benefits	259,929.11	-	259,929.11
Professional fees	2,874.11	-	2,874.11
Insurance	-	-	-
Contract services	-	134,843.99	134,843.99
Electricity	24,949.09	114.16	25,063.25
Supplies	168,143.93	-	168,143.93
Repairs and maintenance	72,184.57	-	72,184.57
Office expense	9,300.32	-	9,300.32
Lease expense	4,322.13	-	4,322.13
Depreciation	108,175.92	-	108,175.92
Miscellaneous	-	-	-
Total operating expenses	649,879.18	134,958.15	784,837.33
Operating income (loss)	(35,318.80)	14,947.59	(20,371.21)
NON-OPERATING REVENUE (EXPENSE)			
Interest income	-	-	-
Grant income	603,406.66	-	603,406.66
Interest expense	(32,377.97)	-	(32,377.97)
Capital outlay	-	-	-
Other	-	-	-
Total non-operating rev (exp)	571,028.69	-	571,028.69
Income (loss) before transfers	535,709.89	14,947.59	550,657.48
Transfers in	-	-	-
Transfers out	(491,253.05)	-	(491,253.05)
Change in net position	44,456.84	14,947.59	59,404.43
Net Position- January 1	2,788,922.12	(7,384.62)	2,781,537.50
Net Position- December 31	2,833,378.96	7,562.97	2,840,941.93

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

CITY OF DRAYTON
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2023

	Water & Sewer	Sanitation	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	614,560.38	149,905.74	764,466.12
Payments to suppliers	(281,774.15)	(134,958.15)	(416,732.30)
Payments to employees	(259,929.11)	-	(259,929.11)
Other receipts	603,406.66	-	603,406.66
Net cash provided by (used in) operating activities	676,263.78	14,947.59	691,211.37
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	-	-	-
Transfers from other funds	(491,253.05)	-	(491,253.05)
Net cash provided by (used in) noncapital financing act	(491,253.05)	-	(491,253.05)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(738,618.02)		(738,618.02)
Principal paid on capital debt	(1,263,000.00)		(1,263,000.00)
Interest paid on capital debt	(32,377.97)		(32,377.97)
Debt proceeds	1,364,848.15		1,364,848.15
Net cash provided by (used in) capital and related finan	(669,147.84)	-	(669,147.84)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	-	-	-
Net cash provided by (used in) investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(484,137.11)	14,947.59	(469,189.52)
Balance- beginning of year	860,624.48	(7,384.62)	853,239.86
Balance- end of year	376,487.37	7,562.97	384,050.34
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	(35,318.80)	14,947.59	(20,371.21)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	108,175.92	-	108,175.92
Change in assets and liabilities:			
Refundable deposits			
Miscellaneous receipts (expense)	603,406.66	-	603,406.66
Net cash provided by operating activities	676,263.78	14,947.59	691,211.37

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

CITY OF DRAYTON
DRAYTON, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Drayton (City) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). 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.

A. 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 the above criteria the city has no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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 for goods or services.

CITY OF DRAYTON
Notes to Financial Statements- Continued

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: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary.

The City reports the following major governmental funds:

General Fund. The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund- This fund accounts for financial resources that exist for special purposes. The major sources of revenues is property taxes, sales taxes and intergovernmental revenues.

Capital Projects Funds. Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Debt Service funds. Debt funds are used to account for the accumulation of financial resources for the payment of principal and interest on the City's debt. The City annually levies special assessments restricted for the retirement of debt.

The City reports the following major enterprise funds:

Water and Sewer- accounts for operating activities of the City's water and sewer utility services.

Sanitation- accounts for operating activities of the City's sanitation services

CITY OF DRAYTON
Notes to Financial Statements- Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. All assets and liabilities associated with the operation of the City are included in the statement of net position.

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.

The current financial resources measurement focus differ from the manner which the governmental activities of the government-wide financial statements are prepared. Due to the difference, the City's financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

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 presents 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.

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 assets (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 assets.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

CITY OF DRAYTON
Notes to Financial Statements- Continued

In the government-wide statement of net position and statement of activities, activities are presented using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation and accrued payroll liabilities in the government-wide statements and accrued payroll liabilities in the fund financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

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

D. Budgets

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

City taxes must be levied by the governing board on or before October 7. The taxes levied must be certified to the County auditor by October 10. The governing body of the City may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the County auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

CITY OF DRAYTON
Notes to Financial Statements- Continued

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts and certificates of deposits with maturity of less than 90 days. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial 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 or constructed. Net estimated historical cost was used to value the majority of assets acquired prior to January 1, 2004. Prior to January 1, 2004, governmental funds' infrastructure assets were not capitalized. 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 of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Permanent Buildings	50
Vehicles and equipment	10

G. Long-Term Obligations

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

CITY OF DRAYTON
Notes to Financial Statements- Continued

H. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council-the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the City's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed. The council has not set a General Fund minimum fund balance.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF DRAYTON
Notes to Financial Statements- Continued

I. 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. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council did not amend the City budget for 2023.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets. No remedial action is required.

NOTE 3 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 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 deposit not covered by insurance or bonds.

CITY OF DRAYTON

Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any City, 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 December 31, 2023, the City's carrying amount of deposits was \$1,534,037. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the City to invest in: (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an 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 the type listed above. (3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state. (4) Obligations of the state.

Concentration of Credit Risk

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

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 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.

CITY OF DRAYTON
Notes to Financial Statements- Continued

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2023:

	Balance Jan 1	Increases	Decreases	Balance December 31
Government activities				
Capital assets not being depreciated				
Land	78,000			78,000
Capital assets, being depreciated				
Bldgs and Improvements	648,200			648,200
Vehicles & Equipment	428,745	134,459		563,204
Total	1,076,945	134,459		1,211,404
Less accumulated depreciation for:				
Buildings & Improve	606,225	8,075		614,300
Vehicles & Equip	374,857	25,612		400,469
Total Accumulated Dep	981,082	33,687		1,014,769
Total Cap Assets Being Depreciated, Net	95,863			196,635
Total net	173,863			274,635
Business-type activities:				
Construction in progress	1,148,224	720,218		1,868,442
Capital assets, being depreciated				
Bldgs and Improvements	2,237,724			2,237,724
Infrastructure	2,656,278			2,656,278
Vehicles & Equipment	297,118	18,400		315,518
Total	5,191,119	18,400		5,209,519
Less accumulated depreciation for:				
Buildings & Improve	2,079,562	26,666		2,106,228
Infrastructure	730,476	66,407		796,883
Vehicles & Equipment	243,855	15,103		258,958
Total	3,053,894	108,176		3,162,070
Total Cap Assets Being Depreciated, Net	2,137,225			2,047,449
Total net	3,285,449			3,915,891

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

Governmental Activities:	
General government	10,049
Public safety	10,153
Public works	12,485
Infrastructure	
Total	33,687
Business-type Activities:	
Water and sewer	108,176

CITY OF DRAYTON
Notes to Financial Statements- Continued

NOTE 6: LONG-TERM DEBT

During the year ended December 31, 2023, the following changes occurred in liabilities reported in long-term debt:

	Payable 2022	Increases	Decreases	Payable 2023	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	165,000		15,000	150,000	15,000
TOTAL	165,000		15,000	150,000	

BUSINESS-TYPE ACTIVITIES					
SRF Notes	57,000		8,000	49,000	8,000
Note Payable	1,105,152	1,364,848	1,235,000	1,235,000	21,578
Bonds Payable	195,000		20,000	175,000	20,000
TOTAL	1,357,152	1,364,848	1,263,000	1,459,000	49,578

BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
Refunding imp bonds- 2010	06/2031	2-5.0%	150,000
Refunding imp bonds- 2010	06/2031	2-5.0%	175,000

BUSINESS TYPE

USDA Loan	05/01/2048	1.875%	1,235,000
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There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Special Assessment bonds are paid directly from debt service sinking funds. Special assessments are certified annually in amounts sufficient to pay debt service requirements. Whenever all special assessments appropriated and collected for a special assessment district are insufficient to pay principal and interest then due on special assessment improvement bonds issued against such improvement district, the city is required to levy a deficiency levy upon all taxable property in the City.

SRF NOTES PAYABLE

The City obtained financing from the State of North Dakota's State Revolving Loan Fund (SRF) to finance improvements to the City's utility systems. Details relative to the outstanding notes payable are shown below:

	Maturity Date	Interest Rate	Balance Outstanding
GOVERNMENTAL ACTIVITIES			
Refunding imp bonds- 2011	06/2029	2.5%	<u>49,000</u>

CITY OF DRAYTON
Notes to Financial Statements- Continued

The annual long-term debt service requirements for bonds payable, as of December 31, 2023, are as follows:

Year Ending December 31	Bonds Payable		SRF/USDA Notes Payable	
	Principal	Interest	Principal	Interest
2024	15,000	7,500	21,578	21,612
2025	15,000	6,750	21,956	21,234
2026	15,000	6,000	22,340	20,850
2027	20,000	5,250	22,731	20,459
2028	20,000	4,250	23,129	20,061
2029-2033	65,000	6,750	121,857	94,093
2034-2038			132,900	83,050
2039-2043			144,943	71,007
2044-2048			158,077	57,873
2049-2053			172,401	43,549
2054-2058			188,025	27,925
2059-2063			205,063	11,630
2064			743	
TOTAL	150,000	36,500	1,235,000	493,343
2024	15,000	8,750	8,000	1,225
2025	15,000	8,000	8,000	1,025
2026	20,000	7,250	8,000	825
2027	25,000	6,250	9,000	625
2028	25,000	5,000	9,000	400
2029-2031	75,000	7,500	7,000	175
TOTAL	175,000	42,750	49,000	4,275

NOTE 7. DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2023:

Sewer	157,805	Will be eliminated with charges/transfers.
Forestry	5,461	Will be eliminated with fees/transfers
Flower	3,227	Will be eliminated with taxes/transfers
City Specials	12,126	Will be eliminated with taxes/transfers
Comm Center	24,319	Will be eliminated with fees/transfers
Mowing	6,492	Will be eliminated with taxes/transfers

CITY OF DRAYTON
Notes to Financial Statements- Continued

NOTE 8: TRANSFERS

Transfers are used to 1)move unrestricted revenues to finance various programs 2)move sales tax revenues to fund programs and projects and 3)move revenues from the fund with collection authorization to the debt service funds as debt service principal and interest payments become due. The City transferred \$491,253 from the Water Reserve Fund to the Street Fund.

NOTE 9: PENSION PLANS

North Dakota Public Employees Retirement System

The City participates in the North Dakota Public Employees Retirement System (PERS) administered by the State of North Dakota. Following is a brief description of the plan:

PERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. PERS provides for retirement, disability and death benefits to plan members and beneficiaries. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employees accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at the normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

CITY OF DRAYTON
Notes to Financial Statements- Continued

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participants annual covered salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The City had agreed to pay 100% of the member assessments in lieu of a salary increase. The City is required to contribute 7.12% of each participant's salary as the employer's share. The City is required to contribute 1.14% of each participating covered wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of PERS. The City's contributions to PERS for the fiscal years ending December 31, 2023, 2021, and 2020 were \$23,754, \$23,394, and \$24,680, respectively, equal to the required contributions for the year.

PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained on the NDPERS website

NOTE 10: 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 and automobile insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence.

The State Bonding Fund currently provides the City with blanket fidelity bond coverage for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

CITY OF DRAYTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-through <u>Grantor/Program Title</u>	AL <u>Number</u>	<u>Expenses</u>
U.S. Department of Homeland Security-		
Passed through ND Department of Emergency Services		
Disaster Grants- Public Assistance	97.036	<u>97,878</u>
U.S. Department of Agriculture-		
Water and Waste Disposal System	10.760	<u>733,255</u>
Total assistance		831,133 =====

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2023. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portions of the operations of the City, it is not intended to be and does not present the financial position or changes in net position of the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are allowable or are limited as to reimbursement. The City has not elected to use the 10% de minimis cost rate.

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S 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

Governing Board
City of Drayton
Drayton, North Dakota

I 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Drayton, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated June 3, 2024.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I 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 a 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items (2023-001 and 2023-002) that I 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 from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of my 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 report 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.

Fargo, North Dakota
June 3, 2024

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
City of Drayton
Drayton, North Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

I have audited the City's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In my opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

I am required to be independent of the City and to meet my other ethical responsibilities, in accordance with relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion on compliance for each major federal program. My audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

My objective is to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on my audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, I:

- * Exercise professional judgment and maintain professional skepticism throughout the audit.
- * Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as I considered necessary in the circumstances.
- * Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that I identified during the audit.

Report on Internal Control over Compliance

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

My consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during my audit I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

My audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Fargo, North Dakota
June 3, 2024

CITY OF DRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Business-type Activities	Unmodified
Major Funds	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	<u> X </u>	No
Significant deficiencies identified not				
Considered to be material weaknesses?	<u> X </u>	Yes	_____	No
Noncompliance material to financial statements				
Noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____	Yes	<u> X </u>	No
Reportable conditions identified not considered				
To be material weaknesses?	_____	Yes	<u> X </u>	None

Type of auditor's report issued on compliance for

Major programs:	Unmodified
Any audit findings disclosed that are required to be	
Reported in accordance with CFR	
Section 200.516?	_____ Yes <u> X </u> No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program Or Cluster</u>
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10.760	Water and Waste Disposal System
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Dollar threshold used to distinguish between Type

A and B programs:	\$750,000
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Auditee qualified as low-risk auditee?	_____	Yes	<u> X </u>	No
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CITY OF DRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

Section II- Financial Statement Findings

2023-001 Segregation of Duties

Criteria

Generally, a system of internal control has the proper segregation of duties between the authorization, custody, record keeping and reconciliation functions.

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements

Recommendation

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Board.

Views of responsible officials and planned corrective actions

The City will review its current monitoring functions and determine if any additional monitoring procedures are warranted.

CITY OF DRAYTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023

2023-002 Financial Statement Preparation

Criteria

Management of the City is responsible for the preparation of the City's annual financial statements to ensure that the financial statements and accompanying note disclosures are reliable, accurate, free of material misstatement in accordance with the modified cash basis of accounting.

Condition

The City does not prepare the financial statements, including the accompanying note disclosures, in conformity with the modified cash basis of accounting. Management has elected to have the financial statements and note disclosures prepared by the auditors.

Cause

Management is not fully knowledgeable of the process of preparing financial statements in compliance with the modified cash basis of accounting.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

I recommend that management continue to obtain sufficient knowledge to prepare the financial statements and accompanying note disclosures in accordance with the modified cash basis of accounting.

Views of responsible officials

Agree. The City is aware that there is a risk having the auditor prepare the financial statements and accompanying note disclosures.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

CITY OF DRAYTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

2021-001 Segregation of Duties

Criteria

Generally, a system of internal control has the proper segregation of duties between the authorization, custody, record keeping and reconciliation functions.

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements

Status

This is a repeat finding, see current year finding 2023-001.

CITY OF DRAYTON
SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

2021-002 Financial Statement Preparation and Journal Entries

Criteria

An appropriate system of internal control requires the City to determine that financial statements are properly stated in compliance with generally accepted accounting principles of accounting. This requires the City's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City's Board. However, the City has not designed internal controls to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements required by generally accepted accounting principles of accounting for external reporting. The City is aware of this deficiency, and obtains auditor assistance in the preparation of the City's annual financial statements.

Cause

The City's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with generally accepted accounting principles of accounting. However, the City is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Status

This is a repeat finding, see current finding 2023-002

CITY OF DRAYTON
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023

2023-001

Contact Person- Sonia Misalek

Corrective Action Plan- Due to the small size of the City, it is not cost effective for the City to properly address this significant deficiency.

Completion Date- Ongoing

2023-002

Contact Person- Sonia Misalek

Corrective Action Plan- Due to the financial efficiency and time constraints, it has been determined by the City's management it is in the best interest of the City to have our auditors prepare the financial statements

Completion Date- Ongoing