

AUDIT REPORT

CITY OF FORMAN
Forman, North Dakota

Audit for the Year Ended
December 31, 2018

V. NELSON CPA, LTD.



CITY OF FORMAN

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CITY OF FORMAN
Forman, North Dakota

CITY OFFICIALS

January 1, 2018 to December 31, 2018

Mark Bopp (outgoing as of July 9, 2018)	Mayor
Kevin Bopp (incoming as of July 9, 2018)	Mayor
Luke Anderson	Council Member
Al Colemer	Council Member
John Stenvold	Council Member
Neil Weaving	Council Member
Trish Pearson	City Auditor



V. NELSON CPA LTD.

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Forman
Forman, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and aggregate remaining fund information of the City of Forman, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

CITY OF FORMAN
INDEPENDENT AUDITOR'S REPORT-CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forman, North Dakota, as of December 31, 2018, 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 C.

Basis of Accounting

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

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 27 to 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forman's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

CITY OF FORMAN
INDEPENDENT AUDITOR'S REPORT-CONTINUED

The *schedule of fund activity arising from cash transactions* 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity arising from cash transactions* is fairly stated on the modified cash basis of accounting, in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2019, on our consideration of the City of Forman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Forman, North Dakota'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 of Forman's internal control over financial reporting and compliance.

Versella Nelson CPA

Versella Nelson, CPA
V. Nelson CPA, Ltd.

Oakes, North Dakota
May 24, 2019

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2018

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Forman Library</u>	<u>Forman Housing</u>
<u>ASSETS:</u>					
<u>Current Assets:</u>					
Cash in Bank	\$ 1,190,365	\$ 321,151	\$ 1,511,516	\$8,074	\$ 43,375
<u>Noncurrent Assets:</u>					
Restricted Cash in Bank	0	0	0		
Capital Assets	<u>5,750,339</u>		<u>5,750,339</u>		<u>975,000</u>
Total Assets	<u>\$ 6,940,704</u>	<u>\$ 321,151</u>	<u>\$ 7,261,855</u>	<u>\$8,074</u>	<u>\$1,018,375</u>
<u>LIABILITIES:</u>					
<u>Current Liabilities:</u>					
Due to Others	\$ 0	\$	\$ 0	\$	\$ 7,000
Due Within One Year:					
Loans Payable	35,716	17,794	53,510		0
Revenue Bonds Payable	165,000	33,800	198,800		35,000
<u>Noncurrent Liabilities:</u>					
Loans Payable	327,788	547,257	875,045		
Revenue Bonds Payable	<u>2,265,000</u>	<u>941,566</u>	<u>3,206,566</u>		<u>715,000</u>
Total Liabilities	<u>\$ 2,793,504</u>	<u>\$ 1,540,417</u>	<u>\$ 4,333,921</u>	<u>\$</u>	<u>\$ 757,000</u>
<u>NET POSITION:</u>					
Net Investment in					
Capital Assets	\$ 5,730,045	\$	\$ 5,730,045	\$	\$
Restricted for:					
Capital Projects	344,800		344,800		
Debt Service	274,622	0	274,622		
Highways	116,204		116,204		
Economic Development	298,404		298,404		
Special Purposes	30,812		30,812	8,074	261,375
Unrestricted	<u>(2,647,687)</u>	<u>(1,219,266)</u>	<u>(3,866,953)</u>		<u>0</u>
Total Net Position	<u>\$ 4,147,200</u>	<u>\$(1,219,266)</u>	<u>\$ 2,927,934</u>	<u>\$8,074</u>	<u>\$ 261,375</u>

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units Forman Library	Forman Housing
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total		
Primary Government:									
Governmental Activities:									
General Government	\$ 311,353	\$ 0	\$	\$	\$ (311,353)	\$	\$ (311,353)	\$	\$
Public Safety	3,965				(3,965)		(3,965)		
Public Works/ Infrastructure	58,924		45,098		(13,826)		(13,826)		
Economic Development	4,141	0			(4,141)		(4,141)		
Interest & Fees on Long-Term Debt	118,701				(118,701)		(118,701)		
Total Governmental Activities	\$ 497,084	\$ 0	\$ 45,098	\$	\$ (451,986)	\$	\$ (451,986)	\$	\$
Business-type Activities:									
Water Operating Fund	\$ 198,392	\$ 180,824	\$	\$ 0	\$	\$ (17,568)	\$ (17,568)	\$	\$
Sewer Operating Fund	33,797	29,386	0			(4,411)	(4,411)		
Garbage Operating Fund	71,518	83,286				11,768	11,768		
Total Business-Type Activities	\$ 303,707	\$ 293,496	\$ 0	\$ 0	\$	\$ (10,211)	\$ (10,211)	\$	\$
Total Primary Government	\$ 800,791	\$ 293,496	\$ 45,098	\$ 0	\$ (451,986)	\$ (10,211)	\$ (462,197)	\$	\$
Component Units:									
Forman Library	\$ 19,388	\$ 718	\$	\$	\$	\$	\$ (18,670)	\$	\$
Forman Housing	37,833	68,000							30,167
General Revenues:									
Taxes:									
Property Taxes Levied for General Purposes				\$ 89,666	\$	\$ 89,666	\$	\$	\$
Property Taxes Levied for Special Purposes				3,349		3,349	5,368		
Property Taxes Levied for Debt Service				307,809		307,809			
State Aid Distribution				93,490		93,490	2,184		
Federal Aid Distributions				0	80,715	80,715			
Interest Income				1,933		1,933			27
Miscellaneous Revenue				10,110	2,636	12,746	2,288		3,510
Donations				0		0	5,126		
Gain (Loss) on Sale of Capital Assets				0		0			
Other				4,092		4,092			
Transfers				(819)	(46,481)	(47,300)	5,000		
Total General Revenues and Transfers	\$ 509,630	\$ 36,870	\$ 546,500	\$ 19,966	\$ 3,537	\$	\$	\$	\$
Change in Net Position	\$ 57,644	\$ 26,659	\$ 84,303	\$ 1,296	\$ 33,704				
Net Position-January 1	\$ 4,089,556	\$ (1,245,925)	\$ 2,843,631	\$ 6,778	\$ 227,671				
Net Position-December 31	\$ 4,147,200	\$ (1,219,266)	\$ 2,927,934	\$ 8,074	\$ 261,375				

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

CITY OF FORMAN
Forman, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2018

	Major Funds							Total Govern- mental Funds	
	Highway Distri- bution	Forman Indus- trial Park	Forman Improve- ment #2002-1	Sewer Repl. Dist. #4	Drain #4	Capital Reserve Fund	Streets Project 2015		Other Govern- mental Funds
<u>ASSETS</u>									
Cash in Bank	\$116,204	\$202,758	\$95,646	\$0	\$171,773	\$344,800	\$102,849	\$30,812	\$1,190,365
<u>LIABILITIES AND FUND BALANCES</u>									
<u>Liabilities:</u>									
Due to Other Agencies	\$	\$	\$	\$	\$	\$	\$	\$	\$
Due to Other Funds	0	0	0	0	0	0	0	0	0
<u>Fund Balances:</u>									
Restricted:									
Restricted for Debt Service	\$	\$	\$	\$	\$171,773	\$	\$102,849	\$	\$ 274,622
Assigned:									
Assigned for Capital Projects						344,800			344,800
Assigned for Highway Dist.	116,204								116,204
Assigned for Forman Industrial		202,758							202,758
Assigned for Forman Improvement			95,646						95,646
Assigned for Special Purposes								30,812	30,812
Unassigned									125,523
Total Fund Balances	\$116,204	\$202,758	\$95,646	\$0	\$171,773	\$344,800	\$102,849	\$30,812	\$1,190,365
Total Liabilities and Fund Balances	\$116,204	\$202,758	\$95,646	\$0	\$171,773	\$344,800	\$102,849	\$30,812	\$1,190,365

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

CITY OF FORMAN
Forman, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2018

Total *Fund Balances* for Governmental Funds \$ 1,190,365

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

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 5,750,339

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term-are reported in the statement of net position. Balances at December 31, 2018 are:

Loans Payable (363,504)
Bonds Payable (2,430,000)

Total Net Position of Governmental Activities \$ 4,147,200

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2018

	Major Funds									Total Govern- mental Funds
	General	Highway Distri- bution	Forman Industrial Park	Forman Improve- ment	Sewer Repl. Dist. #2002-1	Sewer Drain #4	Capital Reserve Fund	Streets Project 2015	Other Govern- mental Funds	
Revenues:										
Taxes	\$ 89,666	\$	\$	\$	\$102,721	\$	\$	\$ 205,088	\$ 3,349	\$ 400,824
Licenses, Permits & Fees	3,943									3,943
Intergovernmental	41,510	45,098	0			51,980				138,588
Fines & Forfeitures	149									149
Interest Income	1,388					417			128	1,933
Miscellaneous	8,331	239		150		0			1,390	10,110
Total Revenues	\$144,987	\$ 45,337	\$ 0	\$ 150	\$102,721	\$ 52,397	\$ 0	\$ 205,088	\$ 4,867	\$ 555,547
Expenditures:										
Current:										
General										
Government	\$130,015	\$	\$ 1,126	\$	\$	\$	\$	\$	\$ 3,033	\$ 134,174
Public Safety	3,965									3,965
Public Works	32,564	26,360								58,924
Conser. of Natural Resources									0	0
Economic Development				4,141						4,141
Capital Outlay		5,183	6,914	2,000						14,097
Debt Service:										
Principal		15,119			55,000	20,000		105,000		195,119
Interest & Service Charges		1,979			24,202	10,070		82,450		118,701
Total Expenditures	\$166,544	\$ 48,641	\$ 8,040	\$ 6,141	\$ 79,202	\$ 30,070	\$ 0	\$ 187,450	\$ 3,033	\$ 529,121
Excess (Deficiency) of Revenues Over Expenditures	\$ (21,557)	\$ (3,304)	\$ (8,040)	\$ (5,991)	\$ 23,519	\$ 22,327	\$ 0	\$ 17,638	\$ 1,834	\$ 26,426
Other Financing Sources (Uses):										
Proceeds of Debt	\$	\$ 0	\$	\$	\$	\$	\$	\$	\$	\$ 0
Transfers In	45,000			0			25,000		4,000	74,000
Transfers Out	(5,000)			(42,300)	(23,519)				(4,000)	(74,819)
Sale of Assets		0								0
Total Other Financing Sources and Uses	\$ 40,000	\$ 0	\$ 0	\$ (42,300)	\$ (23,519)	\$ 0	\$ 25,000	\$ 0	\$ 0	\$ (819)
Net Change in Fund Balances	\$ 18,443	\$ (3,304)	\$ (8,040)	\$ (48,291)	\$ 0	\$ 22,327	\$ 25,000	\$ 17,638	\$ 1,834	\$ 25,607
Balance- January 1	\$107,080	\$ 119,508	\$210,798	\$143,937	\$ 0	\$149,446	\$319,800	\$ 85,211	\$28,978	\$1,164,758
Fund Balance- December 31	\$125,523	\$ 116,204	\$202,758	\$ 95,646	\$ 0	\$171,773	\$344,800	\$ 102,849	\$30,812	\$1,190,365

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

CITY OF FORMAN
Forman, 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, 2018

Net Change in *Fund Balances* - Total Governmental Funds \$ 25,607

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

Repayment of principal and other long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 195,119

Current year capital outlays are expenditures in the fund financial statements but are shown as increases in capital assets in the government-wide financial statements. The net effect of removing capital outlays is to increase net position. 109,008

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. (272,090)

Change in Net Position of Governmental Activities \$ 57,644

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2018

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
ASSETS:				
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 128,908	\$129,536	\$ 62,707	\$ 321,151
<u>Noncurrent Assets:</u>				
Restricted Cash			0	
Total Assets	<u>\$ 128,908</u>	<u>\$129,536</u>	<u>\$ 62,707</u>	<u>\$ 321,151</u>
LIABILITIES:				
<u>Current Liabilities:</u>				
Loans Payable	\$ 8,794	\$ 9,000	\$	\$ 17,794
Bonds Payable	33,800			33,800
Total Current Liabilities	<u>\$ 42,594</u>	<u>\$ 9,000</u>	<u>\$</u>	<u>\$ 51,594</u>
<u>Noncurrent Liabilities:</u>				
Loans Payable	\$ 538,257	\$ 9,000	\$	\$ 547,257
Bonds Payable	941,566			941,566
Total Noncurrent Liabilities	<u>\$ 1,479,823</u>	<u>\$ 9,000</u>	<u>\$</u>	<u>\$ 1,488,823</u>
Total Liabilities	<u>\$ 1,522,417</u>	<u>\$ 18,000</u>	<u>\$</u>	<u>\$ 1,540,417</u>
NET POSITION:				
Restricted for debt service	\$ 0	\$ 0	\$ 0	\$ 0
Unrestricted	<u>(1,393,509)</u>	<u>111,536</u>	<u>62,707</u>	<u>(1,219,266)</u>
Total Net Position	<u>\$ (1,393,509)</u>	<u>\$111,536</u>	<u>\$ 62,707</u>	<u>\$ (1,219,266)</u>

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS

For the Year Ended December 31, 2018

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Operations	\$ 180,824	\$	\$	\$ 180,824
Sanitary Sewer Operations		29,386		29,386
Garbage Operations			83,286	83,286
<u>Total Operating Revenues</u>	<u>\$ 180,824</u>	<u>\$ 29,386</u>	<u>\$ 83,286</u>	<u>\$ 293,496</u>
<u>Operating Expenses:</u>				
Water	\$ 71,232	\$	\$	\$ 71,232
Sewer		33,147		33,147
Garbage			71,518	71,518
<u>Total Operating Expenses</u>	<u>\$ 71,232</u>	<u>\$ 33,147</u>	<u>\$ 71,518</u>	<u>\$ 175,897</u>
<u>Operating Income</u>	<u>\$ 109,592</u>	<u>\$ (3,761)</u>	<u>\$ 11,768</u>	<u>\$ 117,599</u>
<u>Nonoperating Revenues (Expenses):</u>				
Federal Grants	\$ 80,715	\$ 0	\$ 0	\$ 80,715
Interest Expense	(45,065)	(650)		(45,715)
Miscellaneous Income	130		2,506	2,636
Construction/Capital Outlay	(82,095)			(82,095)
<u>Total Nonoperating Revenues (Expenses)</u>	<u>\$ (46,315)</u>	<u>\$ (650)</u>	<u>\$ 2,506</u>	<u>\$ (44,459)</u>
<u>Net Income (Loss) Before Transfers</u>	<u>\$ 63,277</u>	<u>\$ (4,411)</u>	<u>\$ 14,274</u>	<u>\$ 73,140</u>
Transfers In	\$ 84,845	\$ 23,519	\$ 0	\$ 108,364
Transfers Out	(114,845)	(15,000)	(25,000)	(154,845)
<u>Total Transfers</u>	<u>(30,000)</u>	<u>8,519</u>	<u>(25,000)</u>	<u>(46,481)</u>
<u>Change in Net Position</u>	<u>\$ 33,277</u>	<u>\$ 4,108</u>	<u>\$ (10,726)</u>	<u>\$ 26,659</u>
<u>Net Position-January 1</u>	<u>\$ (1,426,786)</u>	<u>\$ 107,428</u>	<u>\$ 73,433</u>	<u>\$ (1,245,925)</u>
<u>Net Position-December 31</u>	<u>\$ (1,393,509)</u>	<u>\$ 111,536</u>	<u>\$ 62,707</u>	<u>\$ (1,219,266)</u>

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS

For the Year Ended December 31, 2018

	<u>Business-type Activities - Enterprise Funds</u>			
	Water	Sewer	Garbage	Total
<u>Cash Flows from Operating Activities:</u>				
Receipt from Customers and users	\$ 180,824	\$ 29,386	\$ 83,286	\$ 293,496
Operating Expenses	(71,232)	(33,147)	(71,518)	(175,897)
Net Cash Provided by Operating Activities	\$ 109,592	\$ (3,761)	\$ 11,768	\$ 117,599
<u>Cash Flows from Noncapital Financing Activities:</u>				
Federal Grants	\$ 80,715	\$ 0	\$	\$ 80,715
Transfers In	84,845	23,519		108,364
Miscellaneous Income	130		2,506	2,636
Transfer Out	(114,845)	(15,000)	(25,000)	(154,845)
Net Cash Provided (used) by Noncapital Financing Activities	\$ 50,845	\$ 8,519	\$ (22,494)	\$ 36,870
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Purchases and Construction of Capital Assets	\$ (82,095)	\$	\$	\$ (82,095)
Principal Paid on Capital Debt	(39,779)	(8,000)		(47,779)
Interest Paid on Capital Debt	(45,065)	(650)		(45,715)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (166,939)	\$ (8,650)	\$ 0	\$ (175,589)
Net Increase (Decrease) in Cash	\$ (6,502)	\$ (3,892)	\$ (10,726)	\$ (21,120)
Cash and Cash Equivalents, January 1	\$ 135,410	\$133,428	\$ 73,433	\$ 342,271
Cash and Cash Equivalents, December 31	\$ 128,908	\$129,536	\$ 62,707	\$ 321,151

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

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
MODIFIED CASH BASIS
FIDUCIARY FUNDS
December 31, 2018

	<u>Agency Funds</u>
	<u>2018</u>
<u>Assets:</u>	
Cash and Investments	<u>\$12,206</u>
 <u>Liabilities:</u>	
Due to Other Governments	<u>\$12,206</u>

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

CITY OF FORMAN
Forman, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Forman, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Forman is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Forman. 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 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 of Forman 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 of Forman.

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

COMPONENT UNIT

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit - The component unit's column in the government wide financial statements include the financial data of the city's component units. These units are reported in a separate column to emphasize that they are legally separate from the city.

Forman City Library - The Forman City Library governing board is separate from the governing board of the city. The city's governing board appoints the library board and has the authority to disapprove, amend, or approve the library's budget.

Forman Housing - The Forman Housing governing board is separate from the governing board of the city. The city's governing board appoints the housing board and has the authority to disapprove, amend or approve the housing's budget.

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and the component units of the City of Forman. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The city reports the following major governmental funds:

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

Highway Distribution Fund. This fund is used for maintenance and improvements to city streets and roads. The primary revenue source in this fund is restricted grants.

Forman Industrial Park Fund. This fund is used for collection of fees for services for economic development in City of Forman.

Forman Improvement Fund. This fund is used for collection of fees for services for improving the economic development of the city.

Sewer Replacement District #2002-1 Fund. This fund is used to account for special assessments collected and related principal and interest payments on the sewer replacement bonds.

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

Sewer Drain #4 Fund. This fund is used to account for sales tax collected and related principal and interest payments on the sewer drain #4 loan.

Capital Reserve Fund. This fund accounts for the accumulation of funds for various capital improvements to city properties.

Streets Project 2015. This fund is used to account for special assessments collected and related principal and interest payments on the Streets Project 2015 bonds.

The City reports the following major enterprise funds:

Water Fund. This fund is used to account for customer receipts for water fees, and operating expenditures and construction costs for water services. It is also used to account for principal and interest payments on water revenue bonds.

Sewer Fund. This fund is used to account for customer receipts for sewer fees and operating expenditures for sewer services. It is also used to account for principal and interest payments on sewer revenue bonds.

Garbage Fund. This fund is used to account for customer receipts for garbage fees and operating expenditures for garbage services.

Additionally, the City reports the following fund type:

Agency Fund. These funds account for assets held by the City in a custodial capacity as an agent on behalf of others. The City's agency fund is used to account for various deposits of other governments.

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.

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

- b) The proprietary funds utilize 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 non-current, financial, or non-financial) 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, business-like, fiduciary fund, and component unit 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, proprietary fund statements, and the similar discretely presented component unit 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.

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

D. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits. Cash equivalents on the statement of cash flows consist of highly liquid investments with an original maturity of three months or less. 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 secured with pledges of securities equal to 110% of the uninsured balance.

The investments of the City at December 31, 2018, consists of certificates of deposit stated at cost.

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

E. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental column 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 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets (if any) are recorded at the estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Infrastructure	7-50
Machinery & Equipment	7

F. Fund Balances/Net Position

In the governmental fund financial statements fund balance is reported in five classifications. Nonspendable fund balance is the amount that is not in spendable form. Restricted for debt service is the portion of fund balance that is restricted for use on debt services. Committed is that portion of fund balance that has been approved by the highest level of formal action of the city council and does not lapse at year-end. The city does not have any committed fund balance this fiscal year. Assigned is the portion of fund balance that has been approved by formal action of the city council and does lapse at year end.

Unassigned is the fund balance that has not been reported in any other classification. The City of Forman, North Dakota does not have a revenue spending policy that provides policy for programs with multiple revenue sources. The Auditor uses resources in following hierarchy, bond proceeds, federal funds, state funds and local funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The city has the authority to deviate from this policy if it is in the best interest of the city. There is no stabilization amounts. The city has not set a minimum fund balance.

Net Position

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

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

Prior to GASB 63, amounts were reported as equity on the statement of net assets in two primary categories (restricted and unrestricted). Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in two primary categories (restricted and unrestricted), outlined in further detail as follows:

Restrictions of net position shown in the statement of net position are due to restricted tax levies, restricted Federal & State grants/reimbursements, and restricted amounts for unspent bond proceeds reported in debt service and capital projects funds. Additionally, restricted net position is shown in the statement of net position by primary function as fund balances are shown in the balance sheet, and is restricted for debt service, highways, economic development, capital projects and special purposes.

Unrestricted net position consists of activity primarily related to the general fund amounts at year-end. The unrestricted net position is available to meet the City's ongoing obligations.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The city's governing board approved the following amendments to the city budget:

Fund	<u>Revenues</u>		
	Original Budget	Amendments	Amended Budget
<u>Enterprise Funds</u>			
Water	185,000	82,100	267,100
<u>Agency Fund</u>			
Library	17,965	1,500	19,465

Fund	<u>Expenditures</u>		
	Original Budget	Amendments	Amended Budget
<u>Governmental Funds</u>			
General Fund	176,005	10,750	186,755
Highway Distribution	107,000	1,500	108,500
Forman Industrial	2,250	6,900	9,150
Forman Improvement	2,175	4,900	7,075
<u>Enterprise Funds</u>			
Water	191,895	82,100	273,995
Sewer	52,563	14,000	66,563
Garbage	100,584	5,500	106,084
<u>Agency Fund</u>			
Library	19,250	1,500	20,750
Park	23,000	3,400	26,400

EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget in the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Budget Year</u>
Sewer Replacement District #2002-1	\$54,999	2018
Sewer Drain #4	\$20,020	2018
Street Project 2015	\$15,000	2018

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 2: LEGAL COMPLIANCE - BUDGETS (CON'T)

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

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 deposits not covered by insurance or bonds.

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

At year ended December 31, 2018, the city's carrying amount of deposits was \$1,523,722, and the bank balance was \$1,528,389. Of the bank balances, \$250,000 was covered by Federal Depository Insurance each year. The remaining balance of \$1,278,389 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:

- (a) 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.
- (b) 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.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

Investments:

As of December 31, 2018, the city held certificates of deposit in the amount of \$147,854 which are all considered deposits.

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 3: DEPOSITS AND INVESTMENTS (CON'T)

Interest Rate Risk:

The city doesn't have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

Concentration of Credit Risk:

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

NOTE 4: 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 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 5: TRANSFERS

The following is a reconciliation of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

	<u>2018</u>	
	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds:</u>		
General	\$ 45,000	\$ 5,000
Capital Reserve	25,000	
Sewer Replacement District 2002		23,519
Perpetual Care		4,000
Cemetery	4,000	
Forman Improvement		42,300
<u>Agency Fund</u>		
Park	42,300	

CITY OF FORMAN
Notes to the Financial Statements-Continued

NOTE 5: TRANSFERS (CON'T)

	2018	
	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Proprietary Fund:</u>		
Water Operating		114,845
Water Plant Sinking	84,845	
Sewer Operating	23,519	15,000
Garbage		25,000
<u>Component Unit</u>		
Library	5,000	
Total Transfers	<u>\$229,664</u>	<u>\$229,664</u>

NOTE 6: CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets				
Vehicle	172,270	0	0	172,270
Buildings and Improve.	328,128	7,400	0	335,528
Machinery and Equipment	425,037	0	0	425,037
Infrastructure	<u>7,881,094</u>	<u>101,608</u>	<u>0</u>	<u>7,982,702</u>
	8,806,529	109,008	0	8,915,537
Less: Accumulated Depreciation				
Vehicle	94,020	20,523		114,543
Buildings and Improve.	144,679	8,080		152,759
Machinery and Equipment	277,215	24,629		301,844
Infrastructure	<u>2,377,194</u>	<u>218,858</u>		<u>2,596,052</u>
	2,893,108	272,090	0	3,165,198
Capital Assets Net	5,913,421	(163,082)	0	5,750,339

Depreciation expense of \$272,090 was charged to the General Government fund.

NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

Governmental Activities

	2018				
	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Revenue Bonds	\$2,590,000	\$ 0	\$ 160,000	\$2,430,000	\$165,000
Loans Payable	398,623	0	35,119	363,504	35,716
Totals	<u>\$2,988,623</u>	<u>\$ 0</u>	<u>\$ 195,119</u>	<u>\$2,793,504</u>	<u>\$200,716</u>

Business-Type Activities

	2018				
	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Loans Payable	\$ 581,630	\$ 0	\$ 16,579	\$ 565,051	\$ 17,794
Revenue Bonds	1,006,566		31,200	975,366	33,800
Totals	<u>\$1,588,196</u>	<u>\$ 0</u>	<u>\$ 47,779</u>	<u>\$1,540,417</u>	<u>\$ 51,594</u>

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 7: LONG-TERM DEBT (CON'T)

Long-term debt of the governmental and business type activities at December 31, 2018, consists of the following issues:

Governmental Activities

Revenue Bonds:

\$1,090,000 Refunding Sewer Main Replacement due in annual principal installments of \$55,000 to \$50,000 through June 1, 2033; interest from 2.0% to 3.5%. \$ 760,000

\$1,965,000 Refunding Improvement Bond due in annual principal installments of \$90,000 to \$180,000 through June 1, 2030; interest from 2.0% to 5.25%. 1,670,000

Total Bonds Governmental Activities \$2,430,000

Loans Payable:

\$434,337 Sewer Drain #4, due in annual principal installments of \$19,337 to \$30,000, through September 1, 2031; interest at 2.5%. \$ 315,000

\$79,000 Payloader loan due in annual principal and interest payments of \$17,098, through December 9, 2021; interest at 2.85%. 48,504

Total Loans Payable \$ 363,504

Business-Type Activities

Loans Payable:

\$134,172 Sewer Replacement District #2000-1, due in annual installments of \$6,000 to \$9,000, through September 1, 2020; interest at 2.5%. \$ 18,000

\$564,000 USDA Water Improvement loan, due in annual installments of \$22,470, through January 1, 2056; interest at 2.5% 547,051

\$ 565,051

Revenue Bonds:

\$740,000 Water Plant Revenue Bond of 2001 (R-1), due in annual installments of \$11,400 to \$31,400, through December 10, 2041; interest at 3%. \$ 540,366

\$505,000 Refunding Water plant Revenue Bonds of 2001, due in annual principal installments of \$10,000 to \$25,000 through June 1, 2041; interest at 2.0% to 3.75%. 435,000

Total Revenue Bonds Business-Type Activities \$ 975,366

CITY OF FORMAN
Notes to the Financial Statements-Continued

NOTE 7: LONG-TERM DEBT (CON'T)

The annual requirements to amortize outstanding debt are as follows:

Governmental Activities

Year Ending December 31	<u>Sewer Bonds</u>		<u>Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 55,000	\$ 22,788	\$ 110,000	\$ 77,425
2020	55,000	21,138	115,000	72,500
2021	50,000	19,563	115,000	69,475
2022	50,000	18,062	120,000	64,175
2023	50,000	16,563	125,000	58,050
2024-2028	250,000	60,188	735,000	190,388
2029-2033	250,000	20,844	350,000	18,638
Total	<u>\$ 760,000</u>	<u>\$179,146</u>	<u>\$1,670,000</u>	<u>\$550,651</u>

Year Ending December 31	<u>Drain Loans Payable</u>		<u>Loader Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 20,000	\$ 7,875	\$ 15,716	\$ 1,382
2020	20,000	7,375	16,164	934
2021	20,000	6,875	16,624	474
2022	25,000	6,375		
2023	25,000	5,750		
2024-2028	125,000	19,375		
2029-2031	80,000	3,750		
Total	<u>\$ 315,000</u>	<u>\$ 57,375</u>	<u>\$ 48,504</u>	<u>\$ 2,790</u>

Business-Type Activities

Year Ending December 31	<u>Sewer Loan Payable</u>		<u>USDA Loan Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 9,000	\$ 450	\$ 8,794	\$ 13,676
2020	9,000	225	9,014	13,456
2021			9,239	13,231
2022			9,470	13,000
2023			9,707	12,763
Thereafter			500,827	240,523
Total	<u>\$ 18,000</u>	<u>\$ 675</u>	<u>\$ 547,051</u>	<u>\$306,649</u>

Year Ending December 31	<u>Water Plant Bonds</u>		<u>Refunding Water Plant Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 16,700	\$ 16,224	\$ 15,000	\$ 14,375
2020	17,200	15,723	15,000	13,925
2021	17,700	15,207	15,000	13,475
2022	18,200	14,676	15,000	13,025
2023	18,800	14,130	15,000	12,575
2024-2028	102,700	61,851	75,000	56,088
2029-2033	119,000	45,495	100,000	42,275
2034-2038	138,000	26,495	110,000	24,713
2039-2041	92,066	5,589	75,000	4,219
Total	<u>\$ 540,366</u>	<u>\$215,390</u>	<u>\$ 435,000</u>	<u>\$194,670</u>

CITY OF FORMAN

Notes to the Financial Statements-Continued

NOTE 8: RETIREMENT PLAN

The city does offer a retirement plan to their employees. The plan is administered by Nationwide Retirement Solutions and is a 457 (b) deferred compensation plan. The city will match 50% of employee contribution up to a maximum of 3%. The city portion will be vested 30% after the first year, 65% after the second year, and 100% after they have completed their third year of employment. Total contribution for the years ended December 31, 2018, 2017 and 2016, were \$4,674, \$4,528 and \$4,525, respectively.

NOTE 9: RISK MANAGEMENT

The City of Forman 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 of Forman pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile and \$467,981 for inland marine.

The City of Forman 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 one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$728,000 for its auditor. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Forman has workers compensation with the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full time employee.

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

NOTE 10: SUBSEQUENT EVENTS

There are no events to report.

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2018

	Original Budget	Final Budget	<u>2018</u> Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 92,294	\$ 92,294	\$ 89,666	\$ (2,628)
Licenses, Permits & Fees	4,800	4,800	3,943	(857)
Intergovernmental	39,500	39,500	41,510	2,010
Fines & Forfeitures	0	0	149	149
Interest Income	1,300	1,300	1,388	88
Miscellaneous	1,500	1,500	8,331	6,831
Total Revenues	<u>\$139,394</u>	<u>\$139,394</u>	<u>\$144,987</u>	<u>\$ 5,593</u>
<u>Expenditures:</u>				
Current:				
General Government	\$125,738	\$136,488	\$130,015	\$ 6,473
Public Safety	6,800	6,800	3,965	2,835
Public Works	38,467	38,467	32,564	5,903
Capital Outlay	0	0	0	0
Total Expenditures	<u>\$171,005</u>	<u>\$181,755</u>	<u>\$166,544</u>	<u>\$ 15,211</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$(31,611)</u>	<u>\$(42,361)</u>	<u>\$(21,557)</u>	<u>\$ 20,804</u>
<u>Other Financing Sources(Uses):</u>				
Transfer In	\$ 45,000	\$ 45,000	\$ 45,000	\$ 0
Transfers Out	(5,000)	(5,000)	(5,000)	0
Total Other Financing Sources and (Uses)	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 0</u>
Net Change in Fund Balance	<u>\$ 8,389</u>	<u>\$ (2,361)</u>	<u>\$ 18,443</u>	<u>\$ 20,804</u>
Fund Balance-January 1	<u>\$107,080</u>	<u>\$107,080</u>	<u>\$107,080</u>	<u>\$ 0</u>
Fund Balance-December 31	<u>\$115,469</u>	<u>\$104,719</u>	<u>\$125,523</u>	<u>\$ 20,804</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
HIGHWAY TAX DISTRIBUTION FUND
For the Year Ended December 31, 2018

	Original	Final	<u>2018</u>	Variance with
	Budget	Budget	Actual	Final Budget
Revenues:				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Intergovernmental	43,890	43,890	45,098	1,208
Miscellaneous	0	0	239	239
Total Revenue	\$ 43,890	\$ 43,890	\$ 45,337	\$ 1,447
Expenditures:				
Current:				
Public Works	\$ 36,000	\$ 37,500	\$ 26,360	\$ 11,140
Capital Outlay	38,000	38,000	5,183	32,817
Principal	0	0	15,119	(15,119)
Interest and Service Charges	0	0	1,979	(1,979)
Total Expenditures	\$ 74,000	\$ 75,500	\$ 48,641	\$ 26,859
Excess (Deficiency) of Revenues over Expenditures	\$ (30,110)	\$ (31,610)	\$ (3,304)	\$ 28,306
Other Financing Sources (Uses):				
Proceeds of Debt	\$ 0	\$ 0	\$ 0	\$ 0
Sale of Equipment	34,000	34,000	0	(34,000)
Transfer Out	(33,000)	(33,000)	0	33,000
Transfer In	0	0	0	0
Total Other Financing Sources & Uses	\$ 1,000	\$ 1,000	\$ 0	\$ (1,000)
Net Change in Fund Balance	\$ (29,110)	\$ (30,610)	\$ (3,304)	\$ 27,306
Fund Balance-January 1	\$ 119,508	\$ 119,508	\$ 119,508	\$ 0
Fund Balance-December 31	\$ 90,398	\$ 88,898	\$ 116,204	\$ 27,306

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
FORMAN INDUSTRIAL PARK FUND
For the Year Ended December 31, 2018

	Original	Final	<u>2018</u> Actual	Variance with Final Budget
	Budget	Budget		
<u>Revenues:</u>				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Charges for Services	0	0	0	0
Total Revenues	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Expenditures:</u>				
Current:				
General Government	\$ 1,250	\$ 1,250	\$ 1,126	\$ 124
Public Works	1,000	1,000	0	1,000
Capital Outlay	0	6,900	6,914	(14)
Total Expenditures	<u>\$ 2,250</u>	<u>\$ 9,150</u>	<u>\$ 8,040</u>	<u>\$ 1,110</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (2,250)</u>	<u>\$ (9,150)</u>	<u>\$ (8,040)</u>	<u>\$ 1,110</u>
Other Financing Sources (Uses):				
Sale of Equipment	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	<u>\$ (2,250)</u>	<u>\$ (9,150)</u>	<u>\$ (8,040)</u>	<u>\$ 1,110</u>
Fund Balance-January 1	<u>\$210,798</u>	<u>\$210,798</u>	<u>\$210,798</u>	<u>\$ 0</u>
Fund Balance-December 31	<u>\$208,548</u>	<u>\$201,648</u>	<u>\$202,758</u>	<u>\$ 1,110</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
FORMAN IMPROVEMENT FUND
For the Year Ended December 31, 2018

	Original Budget	Final Budget	<u>2018</u> Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$	\$	\$	\$
Interest Income				
Miscellaneous	0	0	150	150
Total Revenues	\$ 0	\$ 0	\$ 150	\$ 150
<u>Expenditures:</u>				
Current:				
Economic Development	\$ 2,175	\$ 7,075	\$ 4,141	\$ 2,934
Capital Outlay			2,000	(2,000)
Total Expenditures	\$ 2,175	\$ 7,075	\$ 6,141	\$ 934
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,175)	\$ (7,075)	\$ (5,991)	\$ 1,084
Other Financing Sources (Uses):				
Transfers Out	\$ 0	\$ 0	\$ (42,300)	\$ (42,300)
Total Other Financing Sources and (Uses)	\$ 0	\$ 0	\$ (42,300)	\$ (42,300)
Net Change in Fund Balance	\$ (2,175)	\$ (7,075)	\$ (48,291)	\$ (41,216)
Fund Balance-January 1	\$143,937	\$143,937	\$143,937	\$ 0
Fund Balance-December 31	<u>\$141,762</u>	<u>\$136,862</u>	<u>\$ 95,646</u>	<u>\$ (41,216)</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
SEWER REPLACEMENT DIST. #2002-1
For the Year Ended December 31, 2018

	Original	Final	<u>2018</u>	Variance with
	<u>Budget</u>	<u>Budget</u>	Actual	Final Budget
<u>Revenues:</u>				
Taxes	\$ 96,000	\$ 96,000	\$ 102,721	\$ 6,721
Miscellaneous				
Total Revenues	<u>\$ 96,000</u>	<u>\$ 96,000</u>	<u>\$ 102,721</u>	<u>\$ 6,721</u>
<u>Expenditures:</u>				
Current:				
Debt Service:				
Principal	\$	\$ 0	\$ 55,000	\$ (55,000)
Interest & Service Charges	24,203	24,203	24,202	1
Total Expenditures	<u>\$ 24,203</u>	<u>\$ 24,203</u>	<u>\$ 79,202</u>	<u>\$ (54,999)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 71,797</u>	<u>\$ 71,797</u>	<u>\$ 23,519</u>	<u>\$ (48,278)</u>
Other Financing Sources (Uses):				
Transfers Out	\$(16,797)	\$(16,797)	\$ (23,519)	\$ (6,722)
Total Other Financing Sources and (Uses)	<u>\$(16,797)</u>	<u>\$(16,797)</u>	<u>\$ (23,519)</u>	<u>\$ (6,722)</u>
Net Change in Fund Balance	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 0</u>	<u>\$ (55,000)</u>
Fund Balance-January 1	\$ 0	\$	\$ 0	\$ 0
Fund Balance-December 31	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 0</u>	<u>\$ (55,000)</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
SEWER DRAIN #4
For the Year Ended December 31, 2018

	Original	Final	<u>2018</u>	Variance with
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Intergovernmental	\$ 45,000	\$ 45,000	\$ 51,980	\$ 6,980
Interest Income	110	110	417	307
Total Revenues	<u>\$ 45,110</u>	<u>\$ 45,110</u>	<u>\$ 52,397</u>	<u>\$ 7,287</u>
<u>Expenditures:</u>				
Current:				
Debt Service:				
Principal	\$	\$	\$ 20,000	\$ (20,000)
Interest & Service Charges	10,050	10,050	10,070	(20)
Total Expenditures	<u>\$ 10,050</u>	<u>\$ 10,050</u>	<u>\$ 30,070</u>	<u>\$ (20,020)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 35,060</u>	<u>\$ 35,060</u>	<u>\$ 22,327</u>	<u>\$ (12,733)</u>
Other Financing Sources (Uses):				
Transfer In	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	<u>\$ 35,060</u>	<u>\$ 35,060</u>	<u>\$ 22,327</u>	<u>\$ (12,733)</u>
Fund Balance-January 1	<u>\$ 149,446</u>	<u>\$ 149,446</u>	<u>\$ 149,446</u>	<u>\$ 0</u>
Fund Balance-December 31	<u>\$ 184,506</u>	<u>\$ 184,506</u>	<u>\$ 171,773</u>	<u>\$ (12,733)</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
CAPITAL RESERVE FUND
For the Year Ended December 31, 2018

	Original	Final	<u>2018</u>	Variance with
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Intergovernmental	\$ 0	\$ 0	\$ 0	\$ 0
Total Revenues	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Expenditures:</u>				
Current:				
Capital Outlay	\$ 0	\$ 0	\$ 0	\$ 0
Total Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):				
Transfer In	\$ 93,000	\$ 93,000	\$ 25,000	\$(68,000)
Transfer Out			0	
Net Change in Fund Balance	<u>\$ 93,000</u>	<u>\$ 93,000</u>	<u>\$ 25,000</u>	<u>\$(68,000)</u>
Fund Balance-January 1	<u>\$ 319,800</u>	<u>\$ 319,800</u>	<u>\$ 319,800</u>	<u>\$ 0</u>
Fund Balance-December 31	<u>\$ 412,800</u>	<u>\$ 412,800</u>	<u>\$ 344,800</u>	<u>\$(68,000)</u>

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

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE
STREETS PROJECT 2015
For the Year Ended December 31, 2018

	Original Budget	Final Budget	<u>2018</u> Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$181,975	\$ 181,975	\$ 205,088	\$ 23,113
Miscellaneous				
Total Revenues	<u>\$181,975</u>	<u>\$ 181,975</u>	<u>\$ 205,088</u>	<u>\$ 23,113</u>
<u>Expenditures:</u>				
Current:				
Public Works	\$ 0	\$ 0	\$ 0	\$ 0
Capital Outlay	90,000	90,000		90,000
Debt Service:				
Principal		0	105,000	(105,000)
Interest & Service Charges	82,450	82,450	82,450	0
Total Expenditures	<u>\$172,450</u>	<u>\$ 172,450</u>	<u>\$ 187,450</u>	<u>\$ (15,000)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 9,525</u>	<u>\$ 9,525</u>	<u>\$ 17,638</u>	<u>\$ 8,113</u>
Other Financing Sources (Uses): Transfers In	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Other Financing Sources and (Uses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Change in Fund Balance	<u>\$ 9,525</u>	<u>\$ 9,525</u>	<u>\$ 17,638</u>	<u>\$ 8,113</u>
Fund Balance-January 1	<u>\$ 85,211</u>	<u>\$ 85,211</u>	<u>\$ 85,211</u>	<u>\$ 0</u>
Fund Balance-December 31	<u>\$ 94,736</u>	<u>\$ 94,736</u>	<u>\$ 102,849</u>	<u>\$ 8,113</u>

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

CITY OF FORMAN
Forman, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018

NOTE 1: BUDGETS

The city council adopts a budget on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The budget is prepared for the general fund, each special revenue fund and each debt service fund. The city is required to present the adopted and final amended budgeted receipts and disbursements for each of these funds.

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

- The city council makes a preliminary budget annually on or before September tenth. The budget includes proposed expenditures and a means of financing them. NDCC 40-40-04
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget.
- After the budget hearing and on or before October seventh, the board adopts the final budget. The final budget must be filed with the county auditor by October tenth. NDCC 40-40-09
- No disbursements shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any receipts 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 proceedings of the board.
- All annual appropriations lapse at year-end.

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

During 2018, the City of Forman had the following fund expenditures in excess of budgeted amounts.

	Final <u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Sewer Replacement District 2002-1	24,203	79,202	54,999
Sewer Drain #4	10,050	30,070	20,020
Street Project 2015	172,450	187,450	15,000

No remedial action is anticipated or required regarding this excess expenditures.

CITY OF FORMAN
Forman, North Dakota

SCHEDULE OF FUND ACTIVITY
ARISING FROM CASH TRANSACTIONS
For the Year Ended December 31, 2018

<u>Governmental Funds:</u>	Balance 1-1-18	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-18
<u>Major Funds:</u>						
General Fund	\$ 107,080	\$ 144,987	\$ 45,000	\$ 5,000	\$ 166,544	\$ 125,523
Highway Distribution	119,508	45,337			48,641	116,204
Forman Industrial Park	210,798	0			8,040	202,758
Forman Improvement Fund	143,937	150		42,300	6,141	95,646
Sewer Replacement Dist. #2002-1	0	102,721		23,519	79,202	0
Sewer Drain #4	149,446	52,397			30,070	171,773
Streets Project 2015	85,211	205,088			187,450	102,849
Capital Reserve Fund	319,800	0	25,000	0	0	344,800
Total Major Funds	\$1,135,780	\$ 550,680	\$ 70,000	\$ 70,819	\$ 526,088	\$1,159,553
<u>Nonmajor Funds:</u>						
Cemetery	\$ 4,970	\$ 4,022	\$	\$ 4,000	\$ 3,033	\$ 1,959
Perpetual Care	17,900	650	4,000		0	22,550
Forman Job Development	4,620	175				4,795
Flood Fund	1,488	20				1,508
Total Nonmajor Funds	\$ 28,978	\$ 4,867	\$ 4,000	\$ 4,000	\$ 3,033	\$ 30,812
Total Governmental Funds	\$1,164,758	\$ 555,547	\$ 74,000	\$ 74,819	\$ 529,121	\$1,190,365
<u>Business-Type Funds:</u>						
<u>Major Enterprise:</u>						
<u>Water</u>						
Water Operating	\$ 110,416	\$ 261,669	\$	\$114,845	\$ 153,326	\$ 103,914
Water Plant Sinking and Interest	24,994		84,845		84,845	24,994
Total Water	\$ 135,410	\$ 261,669	\$ 84,845	\$114,845	\$ 238,171	\$ 128,908
<u>Sewer</u>						
Sewer Operating	\$ 133,428	\$ 29,386	\$ 23,519	\$ 15,000	\$ 41,797	\$ 129,536
Total Sewer	\$ 133,428	\$ 29,386	\$ 23,519	\$ 15,000	\$ 41,797	\$ 129,536
<u>Garbage</u>	\$ 73,433	\$ 85,792	\$	\$ 25,000	\$ 71,518	\$ 62,707
Total Enterprise Funds	\$ 342,271	\$ 376,847	\$108,364	\$154,845	\$ 351,486	\$ 321,151
<u>Agency Funds:</u>						
Withholdings	\$ 0	\$ 41,781	\$ 0	\$ 0	\$ 41,766	\$ 15
Library City	25	22			0	47
Park Fund	9,037	27,468	42,300		66,661	12,144
Total Agency	\$ 9,062	\$ 69,271	\$ 42,300	\$ 0	\$ 108,427	\$ 12,206
<u>Discretely Presented</u>						
<u>Component Unit:</u>						
Library	\$ 6,778	\$ 15,684	\$ 5,000	\$	\$ 19,388	\$ 8,074
Forman Housing	44,671	71,537			72,833	43,375
Total Reporting Entity	\$1,567,540	\$1,088,886	\$229,664	\$229,664	\$1,081,255	\$1,575,171



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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

To the City Council
City of Forman
Forman, North Dakota 58032

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forman, North Dakota, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Forman, North Dakota's basic financial statements and have issued our report thereon dated May 24, 2019. The independent auditor's report was adverse because the city prepares its financial statements on the modified cash basis.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

Reportable Conditions

SEGREGATION OF DUTIES

Condition - The City of Forman, North Dakota has one city auditor responsible for accounting functions, including maintaining accounting records, reconciling accounts and paying bills.

Criteria - There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the City.

Effect - There is no segregation of duties as one 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 financial statements. This increases the risks of misstatement of the city's financial condition.

Recommendation - Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response - We agree with this finding. It is not feasible at this time due to the number of personnel in the office and cost consideration to add any additional staff.

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. We consider the deficiencies described in the following paragraphs to be significant deficiencies.

MONITORING OF CONTROLS

Condition - Management and the Council have not documented performing either ongoing or separate evaluations of their system of internal control.

Criteria - The framework for effective internal control over financial reporting states that monitoring should be performed to assess the quality of the company's system of internal control.

Effect - The governmental unit's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatement in a timely manner.

Recommendation - The council and management should document their evaluations of the internal control system in the minutes.

Client Response - Due to the size of the city, it is not feasible to change the internal controls. The council will continue monitoring the controls.

CONTROLS OVER THE FINANCIAL REPORTING PROCESS

Condition - The city auditor has full controls over the computer's financial reporting process.

Criteria - For effective internal controls over financial reporting you should split up the controls.

Effect - She has full controls to initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Recommendation - The city auditor having full controls over the computer's financial reporting process is common in an entity this size. The Management and the Council need to continually monitor the financial reporting process, especially since there is only one city auditor.

Client Response - Due to the size of the city, it is not feasible to split up the controls. The council will continue to monitor this condition.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Forman, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City of Forman, North Dakota's Response to Findings

City of Forman, North Dakota's response to the findings identified in our audit is described in this report. City of Forman, North Dakota'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

V. Nelson CPA, Ltd.

V. NELSON CPA, LTD.
Oakes, North Dakota
May 24, 2019

V. NELSON CPA, LTD.

