



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

City of Cando

Cando, North Dakota

Audit Report for the Years Ended December 31, 2018 and 2017

Client Code: PS48100



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Office of the
State Auditor

CITY OF CANDO

Table of Contents

For the Years Ended December 31, 2018 and 2017

City Officials and Audit Personnel	1
Independent Auditor's Report	2
Basic Financial Statements	
2018 Statements	
Statement of Net Position – Modified Cash Basis.....	4
Statement of Activities – Modified Cash Basis.....	5
Balance Sheet - Governmental Funds – Modified Cash Basis	6
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	8
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the	
Statement of Activities – Modified Cash Basis	9
Statement of Net Position - Proprietary Funds – Modified Cash Basis.....	10
Statement of Revenues, Expenses, and Changes in Fund Net Position –	
Proprietary Funds – Modified Cash Basis	11
Statement of Cash Flows - Proprietary Funds – Modified Cash Basis	12
2017 Statements	
Statement of Net Position – Modified Cash Basis.....	13
Statement of Activities – Modified Cash Basis.....	14
Balance Sheet - Governmental Funds – Modified Cash Basis	15
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	16
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	17
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the	
Statement of Activities – Modified Cash Basis	18
Statement of Net Position - Proprietary Funds – Modified Cash Basis.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Position –	
Proprietary Funds – Modified Cash Basis	20
Statement of Cash Flows - Proprietary Funds – Modified Cash Basis	21
Statement of Fiduciary Assets & Liabilities - Agency Funds – Modified Cash Basis	22
Notes to the Financial Statements.....	23
Supplementary Information	
Budgetary Comparison Schedules	31
Notes to the Supplementary Information	35
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.....	37
Summary of Auditor's Results.....	39
Schedule of Audit Findings	40
Governance Communication	44

CITY OF CANDO

City Officials and Audit Personnel
December 31, 2018 and 2017

CITY OFFICIALS

At December 31, 2018

Jeremy Olson	President
James Gibbens	Vice President
Chuck Wilson	Councilor
Gary Schock	Councilor
Vanessa Weber	Councilor
Duane Holien	Councilor
Rollie Bjornstad	Mayor
Annette Johnson	City Auditor

At December 31, 2017

Gary Shock	President
Chad Staus	Vice President
Chuck Wilson	Councilor
Jeremy Olson	Councilor
Rollie Bjornstad	Councilor
Vanessa Weber	Councilor
Mark Brehm	Mayor
Joni Morlock	City Auditor

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Jonathan Worrall, CPA	Audit In-Charge

STATE AUDITOR
Joshua C. Gallion



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INDEPENDENT AUDITOR'S REPORT

Board of City Commissioners
City of Cando
Cando, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cando, North Dakota, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City of Cando's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1 to the financial statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cando, North Dakota, as of December 31, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the financial statements.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the 2016 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The City of Cando prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

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

The *budgetary comparison schedule* is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *budgetary comparison schedule* is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1 to the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2020 on our consideration of the City of Cando's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Cando'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 Cando's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 25, 2020

CITY OF CANDOStatement of Net Position – Modified Cash Basis
December 31, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,111,399	\$ 702,710	\$ 1,814,109
Capital Assets			
Nondepreciable	19,500	-	19,500
Depreciable, Net	768,174	1,989,113	2,757,287
Total Assets	<u>\$ 1,899,073</u>	<u>\$ 2,691,823</u>	<u>\$ 4,590,896</u>
LIABILITIES			
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	\$ -	\$ 84,000	\$ 84,000
Due After One Year			
Long-Term Debt	-	1,960,000	1,960,000
Total Liabilities	<u>\$ -</u>	<u>\$ 2,044,000</u>	<u>\$ 2,044,000</u>
NET POSITION			
Net Investment in Capital Assets	\$ 787,674	\$ 424,113	\$ 1,211,787
Restricted			
General Government	535,580	-	535,580
Public Safety	10,176	-	10,176
Public Works	191,967	-	191,967
Unrestricted	373,676	223,710	597,386
Total Net Position	<u>\$ 1,899,073</u>	<u>\$ 647,823</u>	<u>\$ 2,546,896</u>

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

CITY OF CANDO

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 Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 359,092	\$ 14,090	\$ 21,528	\$ -	\$ (323,474)		\$ (323,474)
Public Safety	205,698	1,500	-	-	(204,198)		(204,198)
Public Works	134,890	-	97,192	1,635	(36,063)		(36,063)
Total Governmental Activities	\$ 699,680	\$ 15,590	\$ 118,720	\$ 1,635	\$ (563,735)		\$ (563,735)
Business-Type Activities							
Water	\$ 492,632	\$ 392,879	\$ -	\$ -	\$ -	\$ (99,753)	\$ (99,753)
Sewer	48,262	75,895	-	-	-	27,633	27,633
Garbage	209,169	217,261	-	-	-	8,092	8,092
Total Business-Type Activities	\$ 750,063	\$ 686,035	\$ -	\$ -	\$ -	\$ (64,028)	\$ (64,028)
Total Primary Government	\$ 1,449,743	\$ 701,625	\$ 118,720	\$ 1,635	\$ (563,735)	\$ (64,028)	\$ (627,763)
General Revenues and Transfers							
Property Taxes					\$ 209,751	\$ -	\$ 209,751
Sales Taxes					192,321	-	192,321
Non-Restricted Grants and Contributions					88,315	-	88,315
Unrestricted Investment Earnings					2,304	1,436	3,740
Gain on Sale of Assets					9,160	-	9,160
Miscellaneous					21,753	-	21,753
Net Cash Transfers					(175,400)	175,400	-
Total General Revenues and Transfers					\$ 348,204	\$ 176,836	\$ 525,040
Special Item							
Contribution to Northeast Regional Water District					\$ -	\$ (479,000)	(479,000)
Changes in Net Position					\$ (215,531)	\$ (366,192)	\$ (581,723)
Net Position - January 1					\$ 2,114,604	\$ 1,014,015	\$ 3,128,619
Net Position - December 31					\$ 1,899,073	\$ 647,823	\$ 2,546,896

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

CITY OF CANDO

Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash	<u>\$ 373,777</u>	<u>\$ 737,622</u>	<u>\$ 1,111,399</u>
FUND BALANCES			
Restricted			
General Government	\$ -	\$ 535,580	\$ 535,580
Public Safety	-	10,176	10,176
Public Works/Streets	-	191,967	191,967
Unassigned			
General Fund	373,777	-	373,777
Negative Fund Balances	-	(101)	(101)
Total Fund Balances	<u>\$ 373,777</u>	<u>\$ 737,622</u>	<u>\$ 1,111,399</u>

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

CITY OF CANDO

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2018

Total Fund Balances of Governmental Funds \$ 1,111,399

Total Net Position reported for governmental activities in the statement of Net Position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 787,674

Total Net Position of Governmental Activities \$ 1,899,073

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

CITY OF CANDOStatement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2018

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 175,436	\$ 34,315	\$ 209,751
Special Assessment Taxes	-	1,635	1,635
Sales Taxes	-	192,321	192,321
Licenses, Permits and Fees	14,540	-	14,540
Charges for Services	-	15,590	15,590
Intergovernmental	94,039	98,457	192,496
Interest	2,304	-	2,304
Miscellaneous	15,583	6,168	21,751
Total Revenues	<u>\$ 301,902</u>	<u>\$ 348,486</u>	<u>\$ 650,388</u>
EXPENDITURES			
General Government	\$ 148,074	\$ 177,938	\$ 326,012
Public Safety	143,265	11,614	154,879
Public Works	6,643	125,269	131,912
Total Expenditures	<u>\$ 297,982</u>	<u>\$ 314,821</u>	<u>\$ 612,803</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 3,920</u>	<u>\$ 33,665</u>	<u>\$ 37,585</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ -	\$ 3,000	\$ 3,000
Transfers Out	(3,000)	(175,400)	(178,400)
Total Other Financing Sources and Uses	<u>\$ (3,000)</u>	<u>\$ (172,400)</u>	<u>\$ (175,400)</u>
Net Change in Fund Balances	<u>\$ 920</u>	<u>\$ (138,735)</u>	<u>\$ (137,815)</u>
Fund Balance - January 1	<u>\$ 372,857</u>	<u>\$ 876,357</u>	<u>\$ 1,249,214</u>
Fund Balance - December 31	<u>\$ 373,777</u>	<u>\$ 737,622</u>	<u>\$ 1,111,399</u>

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

CITY OF CANDO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (137,815)

The change in Net Position reported for governmental activities in the statement of activities is different because:

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

Capital Asset Outlay	\$ 57,085	
Current Year Depreciation Expense	<u>(90,876)</u>	(33,791)

In the statement of activities only the gain on sale of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources

Gain on Sale of Capital Assets	\$ 9,160	
Sale of Capital Assets	<u>(53,085)</u>	<u>(43,925)</u>

Change in Net Position of Governmental Activities \$ (215,531)

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

CITY OF CANDOStatement of Net Position – Proprietary Funds – Modified Cash Basis
December 31, 2018

	Business-Type Activities			
	Water Fund	Sewer Fund	Garbage Fund	Total
ASSETS				
Current Assets				
Cash				
Unrestricted	\$ 202,394	\$ 172,000	\$ 202,916	\$ 577,310
Restricted	125,400	-	-	125,400
Total Cash	\$ 327,794	\$ 172,000	\$ 202,916	\$ 702,710
Total Current Assets	\$ 327,794	\$ 172,000	\$ 202,916	\$ 702,710
Noncurrent Assets				
Capital Assets				
Depreciable, Net	\$ 1,818,693	\$ 144,649	\$ 25,771	\$ 1,989,113
Total Assets	\$ 2,146,487	\$ 316,649	\$ 228,687	\$ 2,691,823
LIABILITIES				
Current Liabilities				
Long-Term Debt	\$ 84,000	\$ -	\$ -	\$ 84,000
Noncurrent Liabilities				
Long-Term Debt	\$ 1,960,000	\$ -	\$ -	\$ 1,960,000
Total Liabilities	\$ 2,044,000	\$ -	\$ -	\$ 2,044,000
NET POSITION				
Net Investment in Capital Assets	\$ 253,693	\$ 144,649	\$ 25,771	\$ 424,113
Unrestricted	(151,206)	172,000	202,916	223,710
Total Net Position	\$ 102,487	\$ 316,649	\$ 228,687	\$ 647,823

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

CITY OF CANDO

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2018

	Business-Type Activities			
	Water Fund	Sewer Fund	Garbage Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 392,879	\$ 75,895	\$ 217,261	\$ 686,035
OPERATING EXPENSES				
Water Operation	\$ 110,133	\$ -	\$ -	\$ 110,133
Sewer Operation	-	19,459	-	19,459
Garbage Operation	-	-	202,121	202,121
Office Expense	13,472	-	39	13,511
Insurance Expense	2,458	296	-	2,754
Payroll Expense	133,002	-	11	133,013
Utilities	23,248	5,545	-	28,793
Miscellaneous	1,060	-	-	1,060
Depreciation	53,329	22,962	6,998	83,289
Total Operating Expenses	\$ 336,702	\$ 48,262	\$ 209,169	\$ 594,133
Operating Income	\$ 56,177	\$ 27,633	\$ 8,092	\$ 91,902
NONOPERATING REVENUES (EXPENSES)				
Investment Earnings	\$ 1,436	\$ -	\$ -	\$ 1,436
Interest on Long-Term Debt	(155,930)	-	-	(155,930)
Total Nonoperating Revenues (Expenses)	\$ (154,494)	\$ -	\$ -	\$ (154,494)
Income (Loss) Before Transfers	\$ (98,317)	\$ 27,633	\$ 8,092	\$ (62,592)
TRANFERS AND SPECIAL ITEMS				
Transfers In	\$ 205,400	\$ -	\$ -	\$ 205,400
Transfers Out	(10,000)	(20,000)	-	(30,000)
Contribution to Northeast Regional Water District	(479,000)	-	-	(479,000)
Total Transfers and Special Items	\$ (283,600)	\$ (20,000)	\$ -	\$ (303,600)
Change in Net Position	\$ (381,917)	\$ 7,633	\$ 8,092	\$ (366,192)
Net Position - January 1	\$ 484,404	\$ 309,016	\$ 220,595	\$ 1,014,015
Net Position - December 31	\$ 102,487	\$ 316,649	\$ 228,687	\$ 647,823

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

CITY OF CANDO

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2018

	Business-Type Activities			
	Water Fund	Sewer Fund	Garbage Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 392,879	\$ 75,895	\$ 217,261	\$ 686,035
Payments to Suppliers	(150,371)	(25,300)	(202,160)	(377,831)
Payments to Employees	(133,002)	-	(11)	(133,013)
Net Cash Provided by Operating Activities	\$ 109,506	\$ 50,595	\$ 15,090	\$ 175,191
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	\$ 205,400	\$ -	\$ -	\$ 205,400
Transfers Out	(10,000)	(20,000)	-	(30,000)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 195,400	\$ (20,000)	\$ -	\$ 175,400
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Capital Debt	\$ (100,000)	\$ -	\$ -	\$ (100,000)
Interest and Fees Paid on Capital Debt	(131,898)	-	-	(131,898)
Net Cash Used by Capital and Related Financing Activities	\$ (231,898)	\$ -	\$ -	\$ (231,898)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Income	\$ 1,436	\$ -	\$ -	\$ 1,436
Net Increase in Cash	\$ 74,444	\$ 30,595	\$ 15,090	\$ 120,129
Cash - January 1	\$ 253,350	\$ 141,405	\$ 187,826	\$ 582,581
Cash - December 31	\$ 327,794	\$ 172,000	\$ 202,916	\$ 702,710
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	\$ 56,177	\$ 27,633	\$ 8,092	\$ 91,902
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	53,329	22,962	6,998	83,289
Net Cash Provided by Operating Activities	\$ 109,506	\$ 50,595	\$ 15,090	\$ 175,191

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

CITY OF CANDOStatement of Net Position – Modified Cash Basis
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,249,214	\$ 582,581	\$ 1,831,795
Capital Assets			
Nondepreciable	19,500	-	19,500
Depreciable, Net	845,890	2,072,402	2,918,292
Total Assets	<u>\$ 2,114,604</u>	<u>\$ 2,654,983</u>	<u>\$ 4,769,587</u>
LIABILITIES			
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	\$ -	\$ 98,283	\$ 98,283
Due After One Year			
Long-Term Debt	-	1,542,685	1,542,685
Total Liabilities	<u>\$ -</u>	<u>\$ 1,640,968</u>	<u>\$ 1,640,968</u>
NET POSITION			
Net Investment in Capital Assets	\$ 865,390	\$ 431,434	\$ 1,296,824
Restricted			
General Government	661,374	-	661,374
Public Safety	6,760	-	6,760
Public Works	208,223	-	208,223
Unrestricted	372,857	582,581	955,438
Total Net Position	<u>\$ 2,114,604</u>	<u>\$ 1,014,015</u>	<u>\$ 3,128,619</u>

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

CITY OF CANDO

Statement of Activities – Modified Cash Basis
 For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$ 299,133	\$ 4,330	\$ 25,669	\$ -	\$ (269,134)		\$ (269,134)
Public Safety	206,692	1,500	-	-	(205,192)		(205,192)
Public Works	91,650	-	94,991	2,223	5,564		5,564
Total Governmental Activities	\$ 597,475	\$ 5,830	\$ 120,660	\$ 2,223	\$ (468,762)		\$ (468,762)
Business-Type Activities							
Water	\$ 477,036	\$ 518,490	\$ -	\$ -	\$ -	\$ 41,454	\$ 41,454
Sewer	70,529	76,673	-	-	-	6,144	6,144
Garbage	207,266	230,198	-	-	-	22,932	22,932
Total Business-Type Activities	\$ 754,831	\$ 825,361	\$ -	\$ -	\$ -	\$ 70,530	\$ 70,530
Total Primary Government	\$ 1,352,306	\$ 831,191	\$ 120,660	\$ 2,223	\$ (468,762)	\$ 70,530	\$ (398,232)
General Revenues							
Property Taxes					\$ 209,474	\$ -	\$ 209,474
Sales Taxes					182,264	-	182,264
Non-Restricted Grants and Contributions					81,395	-	81,395
Unrestricted Investment Earnings					1,810	887	2,697
Miscellaneous					44,405	-	44,405
Transfers of Capital Assets					35,060	(35,060)	-
Total General Revenues					\$ 554,408	\$ (34,173)	\$ 520,235
Changes in Net Position					\$ 85,646	\$ 36,357	\$ 122,003
Net Position - January 1					\$ 2,009,936	\$ 977,658	\$ 2,987,594
Prior Period Adjustments					\$ 19,022	\$ -	\$ 19,022
Net Position - January 1, as Restated					\$ 2,028,958	\$ 977,658	\$ 3,006,616
Net Position - December 31					\$ 2,114,604	\$ 1,014,015	\$ 3,128,619

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

CITY OF CANDO

Balance Sheet – Governmental Funds – Modified Cash Basis
December 31, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash	\$ 372,857	\$ 876,357	\$ 1,249,214
FUND BALANCES			
Restricted			
General Government	\$ -	\$ 661,374	\$ 661,374
Public Safety	-	6,760	6,760
Public Works	-	208,223	208,223
Unassigned			
General Fund	372,857	-	372,857
Total Fund Balances	\$ 372,857	\$ 876,357	\$ 1,249,214

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

CITY OF CANDO

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2017

Total Fund Balances of Governmental Funds \$ 1,249,214

Total Net Position reported for governmental activities in the statement of Net Position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 865,390

Total Net Position of Governmental Activities \$ 2,114,604

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

CITY OF CANDO

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
 For the Year Ended December 31, 2017

	General Fund	Special Revenue Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 179,019	\$ 30,455	\$ 209,474
Special Assessment Taxes	-	2,223	2,223
Sales Taxes	-	182,264	182,264
Licenses, Permits and Fees	11,232	-	11,232
Charges for Services	-	5,830	5,830
Intergovernmental	94,439	96,384	190,823
Interest	1,810	-	1,810
Miscellaneous	32,907	11,498	44,405
Total Revenues	<u>\$ 319,407</u>	<u>\$ 328,654</u>	<u>\$ 648,061</u>
EXPENDITURES			
General Government	\$ 147,362	\$ 118,691	\$ 266,053
Public Safety	140,591	17,900	158,491
Public Works	6,962	76,720	83,682
Total Expenditures	<u>\$ 294,915</u>	<u>\$ 213,311</u>	<u>\$ 508,226</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 24,492</u>	<u>\$ 115,343</u>	<u>\$ 139,835</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ -	\$ 5,900	\$ 5,900
Transfers Out	(5,900)	-	(5,900)
Total Other Financing Sources and Uses	<u>\$ (5,900)</u>	<u>\$ 5,900</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ 18,592</u>	<u>\$ 121,243</u>	<u>\$ 139,835</u>
Fund Balance - January 1	<u>\$ 354,265</u>	<u>\$ 785,209</u>	<u>\$ 1,139,474</u>
Prior Period Adjustment	<u>\$ -</u>	<u>\$ (30,095)</u>	<u>\$ (30,095)</u>
Fund Balance - January 1, as Restated	<u>\$ 354,265</u>	<u>\$ 755,114</u>	<u>\$ 1,109,379</u>
Fund Balance - December 31	<u>\$ 372,857</u>	<u>\$ 876,357</u>	<u>\$ 1,249,214</u>

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

CITY OF CANDO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ 139,835

The change in Net Position reported for governmental activities in the statement of activities is different because:

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

Capital Asset Outlay	\$ 6,400	
Capital Asset Transfer from Enterprise Fund	35,060	
Current Year Depreciation Expense	(95,649)	(54,189)

Change in Net Position of Governmental Activities \$ 85,646

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

CITY OF CANDOStatement of Net Position – Proprietary Funds – Modified Cash Basis
December 31, 2017

	Business-Type Activities				Total
	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	
ASSETS					
Current Assets					
Cash	\$ 253,350	\$ 141,405	\$ 187,826	\$ -	\$ 582,581
Noncurrent Assets					
Capital Assets					
Depreciable, Net	\$ 1,872,022	\$ 167,611	\$ 32,769	\$ -	\$ 2,072,402
Total Assets	\$ 2,125,372	\$ 309,016	\$ 220,595	\$ -	\$ 2,654,983
LIABILITIES					
Current Liabilities					
Long-Term Debt	\$ 98,283	\$ -	\$ -	\$ -	\$ 98,283
Noncurrent Liabilities					
Long-Term Debt	\$ 1,542,685	\$ -	\$ -	\$ -	\$ 1,542,685
Total Liabilities	\$ 1,640,968	\$ -	\$ -	\$ -	\$ 1,640,968
NET POSITION					
Net Investment in Capital Assets	\$ 231,054	\$ 167,611	\$ 32,769	\$ -	\$ 431,434
Unrestricted	253,350	141,405	187,826	-	582,581
Total Net Position	\$ 484,404	\$ 309,016	\$ 220,595	\$ -	\$ 1,014,015

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

CITY OF CANDO

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2017

	Business-Type Activities				Total
	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	
OPERATING REVENUES					
Charges for Services	\$ 518,490	\$ 76,673	\$ 230,198	\$ -	\$ 825,361
OPERATING EXPENSES					
Water Operation	\$ 154,654	\$ -	\$ -	\$ -	\$ 154,654
Sewer Operation	-	39,897	-	-	39,897
Garbage Operation	-	-	197,767	-	197,767
Office Expense	14,050	144	-	-	14,194
Insurance Expense	3,167	126	-	-	3,293
Payroll Expense	153,784	-	-	-	153,784
Utilities	35,172	4,899	-	-	40,071
Professional Fees	3,000	2,500	2,500	-	8,000
Miscellaneous	1,455	-	-	-	1,455
Depreciation	53,329	22,963	6,999	-	83,291
Total Operating Expenses	\$ 418,611	\$ 70,529	\$ 207,266	\$ -	\$ 696,406
Operating Income	\$ 99,879	\$ 6,144	\$ 22,932	\$ -	\$ 128,955
NONOPERATING REVENUES (EXPENSES)					
Investment Earnings	\$ 887	\$ -	\$ -	\$ -	\$ 887
Interest on Long-Term Debt	(58,425)	-	-	-	(58,425)
Total Nonoperating Revenues (Expenses)	\$ (57,538)	\$ -	\$ -	\$ -	\$ (57,538)
Income Before Transfers	\$ 42,341	\$ 6,144	\$ 22,932	\$ -	\$ 71,417
TRANSFERS					
Transfers In	\$ 44,000	\$ -	\$ -	\$ -	\$ 44,000
Transfers Out	(17,000)	(10,000)	(17,000)	-	(44,000)
Transfers of Capital Assets	-	-	-	(35,060)	(35,060)
Total Transfers	\$ 27,000	\$ (10,000)	\$ (17,000)	\$ (35,060)	\$ (35,060)
Change in Net Position	\$ 69,341	\$ (3,856)	\$ 5,932	\$ (35,060)	\$ 36,357
Net Position - January 1	\$ 415,063	\$ 312,872	\$ 214,663	\$ 35,060	\$ 977,658
Net Position - December 31	\$ 484,404	\$ 309,016	\$ 220,595	\$ -	\$ 1,014,015

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

CITY OF CANDO

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis
 For the Year Ended December 31, 2017

	Business-Type Activities				
	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 518,490	\$ 76,673	\$ 230,198	\$ -	\$ 825,361
Payments to Suppliers	(211,498)	(47,567)	(200,268)	-	(459,333)
Payments to Employees	(153,784)	-	-	-	(153,784)
Net Cash Provided by Operating Activities	\$ 153,208	\$ 29,106	\$ 29,930	\$ -	\$ 212,244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	\$ 44,000	\$ -	\$ -	\$ -	\$ 44,000
Transfers Out	(17,000)	(10,000)	(17,000)	-	(44,000)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 27,000	\$ (10,000)	\$ (17,000)	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Paid on Capital Debt	\$ (100,000)	\$ -	\$ -	\$ -	\$ (100,000)
Interest and Fees Paid on Capital Debt	(56,708)	-	-	-	(56,708)
Net Cash Used by Capital and Related Financing Activities	\$ (156,708)	\$ -	\$ -	\$ -	\$ (156,708)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest Income	\$ 887	\$ -	\$ -	\$ -	\$ 887
Net Increase in Cash	\$ 24,387	\$ 19,106	\$ 12,930	\$ -	\$ 56,423
Cash - January 1	\$ 228,963	\$ 122,299	\$ 174,896	\$ -	\$ 526,158
Cash - December 31	\$ 253,350	\$ 141,405	\$ 187,826	\$ -	\$ 582,581
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	\$ 99,879	\$ 6,144	\$ 22,932	\$ -	\$ 128,955
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	53,329	22,962	6,998	-	83,289
Net Cash Provided by Operating Activities	\$ 153,208	\$ 29,106	\$ 29,930	\$ -	\$ 212,244

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

CITY OF CANDO

Statement of Fiduciary Assets and Liabilities – Agency Funds – Modified Cash Basis
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	<u>\$ 16,727</u>	<u>\$ 15,265</u>
LIABILITIES		
Due to Other Entities	<u>\$ 16,727</u>	<u>\$ 15,265</u>

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

CITY OF CANDO

Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Basis of Presentation

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF CANDO

Notes to the Financial Statements – Continued

The City reports the following major enterprise funds:

Water Fund - This fund accounts for the activity of the Water Department. The department operates the water distribution system in the City of Cando.

Sewer Fund - This fund accounts for the activities of the City's sewer collection system.

Garbage Fund - This fund accounts for the activities of the City's garbage collection system.

Audi Muni Theater – This fund accounts for the activities of the Audi Municipal Theater

Additionally, the City reports the following fund type:

Agency Funds. These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

Measurement Focus

Government-wide Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Only current financial assets are generally included on their balance sheet. The Statements of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

Fiduciary Funds Financial Statement. The fiduciary fund financial statement is reported using the economic resources measurement focus, as applied to the modified cash basis of accounting.

Basis of Accounting

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenses when they result from cash transactions with a provision for depreciation. The modified cash basis of accounting is modified for recording investments at current fair value, rather than cost. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City's governmental funds use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received in cash and expenditures are recorded at the time of disbursement.

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

Cash

Cash includes amounts in demand deposits and money market accounts.

Capital Assets

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

CITY OF CANDO

Notes to the Financial Statements – Continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives (amounts in years):

Buildings	15 - 50
Equipment	10
Vehicles	10
Improvements	25

Long-Term Liabilities

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

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

Fund Balance

Fund Balance Spending Policy. It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the City to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

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

Net Position

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

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

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

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

Interfund Transactions

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

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

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

CITY OF CANDO

Notes to the Financial Statements – Continued

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Governmental Activities

Net position as of January 1, 2017 has been restated for a change in fund classification, as well as various capital asset adjustments as shown below.

Beginning Net Position, as Previously Reported	\$ 2,009,936
Prior Period Adjustments	
Change in Fund Classification	(30,095)
Capital Asset Net Error	49,117
Net Position January 1, as Restated	\$ 2,028,958

Additionally, an adjustment to the Special Revenue Fund governmental fund balance was necessary for a change in fund classification.

Beginning Fund Balance, as Previously Reported	\$ 785,209
Prior Period Adjustments	
Change in Fund Classification	(30,095)
Fund Balance January 1, as Restated	\$ 755,114

NOTE 3 DEPOSITS

Custodial Credit Risk

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

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

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

At year ended December 31, 2018, the City's carrying amount of deposits totaled \$1,830,836, and the bank balances totaled \$1,890,669. Of the bank balances, \$684,427 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2017, the City's carrying amount of deposits totaled \$1,847,059, and the bank balances totaled \$1,877,319. Of the bank balances, \$664,991 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

CITY OF CANDO

Notes to the Financial Statements – Continued

NOTE 4 PROPERTY TAXES

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

NOTE 5 CAPITAL ASSETS

Governmental Activities

The following is a summary of changes in capital assets for the years ended 2018 and 2017:

Governmental Activities - 2018	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 19,500	\$ -	\$ -	\$ -	\$ 19,500
Capital Assets Being Depreciated					
Building	\$ 1,512,123	\$ -	\$ -	\$ -	\$ 1,512,123
Equipment	425,380	57,085	54,906	-	427,559
Improvements	1,237,452	-	-	-	1,237,452
Vehicles	316,940	-	-	-	316,940
Total Capital Assets Being Depreciated	\$ 3,491,895	\$ 57,085	\$ 54,906	\$ -	\$ 3,494,074
Less Accumulated Depreciation					
Building	\$ 1,315,083	\$ 21,551	\$ -	\$ -	\$ 1,336,634
Equipment	346,656	13,288	10,981	-	348,963
Improvements	708,445	49,498	-	-	757,943
Vehicles	275,821	6,539	-	-	282,360
Total Accumulated Depreciation	\$ 2,646,005	\$ 90,876	\$ 10,981	\$ -	\$ 2,725,900
Total Capital Assets Being Depreciated, Net	\$ 845,890	\$ (33,791)	\$ 43,925	\$ -	\$ 768,174
Governmental Activities Capital Assets, Net	\$ 865,390	\$ (33,791)	\$ 43,925	\$ -	\$ 787,674

Governmental Activities - 2017	Restated Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Not Being Depreciated					
Land	\$ 19,500	\$ -	\$ -	\$ -	\$ 19,500
Capital Assets Being Depreciated					
Building	\$ 1,512,123	\$ -	\$ -	\$ -	\$ 1,512,123
Equipment	361,633	-	-	63,747	425,380
Improvements	1,237,452	-	-	-	1,237,452
Vehicles	310,540	6,400	-	-	316,940
Total Capital Assets Being Depreciated	\$ 3,421,748	\$ 6,400	\$ -	\$ 63,747	\$ 3,491,895
Less Accumulated Depreciation					
Building	\$ 1,288,541	\$ 26,542	\$ -	\$ -	\$ 1,315,083
Equipment	304,901	13,070	-	28,685	346,656
Improvements	658,947	49,498	-	-	708,445
Vehicles	269,282	6,539	-	-	275,821
Total Accumulated Depreciation	\$ 2,521,671	\$ 95,649	\$ -	\$ 28,685	\$ 2,646,005
Total Capital Assets Being Depreciated, Net	\$ 900,077	\$ (89,249)	\$ -	\$ 35,062	\$ 845,890
Governmental Activities Capital Assets, Net	\$ 919,577	\$ (89,249)	\$ -	\$ 35,062	\$ 865,390

CITY OF CANDO

Notes to the Financial Statements – Continued

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

Governmental Activities	2018	2017
General Government	\$ 33,080	\$ 33,080
Public Works	54,819	54,601
Public Safety	2,977	7,968
Total Depreciation Expense	\$ 90,876	\$ 95,649

Business-Type Activities

The following is a summary of changes in capital assets for the years ended 2018 and 2017:

Business-Type Activities - 2018	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Being Depreciated					
Equipment	\$ 65,290	\$ -	\$ -	\$ -	\$ 65,290
Improvements	768,573	-	-	-	768,573
Infrastructure	2,798,800	-	-	-	\$ 2,798,800
Total Capital Assets, Being Depreciated	\$ 3,632,663	\$ -	\$ -	\$ -	\$ 3,632,663
Less Accumulated Depreciation					
Equipment	\$ 64,122	\$ 584	\$ -	\$ -	\$ 64,706
Improvements	528,227	32,229	-	-	560,456
Infrastructure	967,912	50,476	-	-	\$ 1,018,388
Total Accumulated Depreciation	\$ 1,560,261	\$ 83,289	\$ -	\$ -	\$ 1,643,550
Toal Capital Assets, Net	\$ 2,072,402	\$ (83,289)	\$ -	\$ -	\$ 1,989,113

Business-Type Activities - 2017	Balance Jan 1	Increases	Decreases	Transfers	Balance Dec 31
Capital Assets Being Depreciated					
Equipment	\$ 129,037	\$ -	\$ -	\$ (63,747)	\$ 65,290
Improvements	768,573	-	-	-	768,573
Infrastructure	2,798,800	-	-	-	2,798,800
Total Capital Assets, Being Depreciated	\$ 3,696,410	\$ -	\$ -	\$ (63,747)	\$ 3,632,663
Less Accumulated Depreciation					
Equipment	\$ 92,223	\$ 584	\$ -	\$ (28,685)	\$ 64,122
Improvements	495,997	32,230	-	-	528,227
Infrastructure	917,436	50,476	-	-	967,912
Total Accumulated Depreciation	\$ 1,505,656	\$ 83,290	\$ -	\$ (28,685)	\$ 1,560,261
Toal Capital Assets, Net	\$ 2,190,754	\$ (83,290)	\$ -	\$ (35,062)	\$ 2,072,402

Depreciation expense was charged to the following business-type functions:

Business-Type Activities	2018	2017
Water	\$ 53,329	\$ 53,329
Sewer	22,962	22,962
Garbage	6,998	6,999
Total Depreciation Expense	\$ 83,289	\$ 83,290

CITY OF CANDO

Notes to the Financial Statements – Continued

NOTE 6 LONG-TERM LIABILITIES

Business-Type Activities

The following changes occurred in long-term liabilities for the years ended 2018 and 2017:

Water Fund - 2018	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Bonds Payable	\$ 1,665,000	\$ 2,044,000	\$ 1,665,000	\$ 2,044,000	\$ 84,000
Bond Discount	(24,032)	-	(24,032)	-	-
Total Long-Term Liabilities	\$ 1,640,968	\$ 2,044,000	\$ 1,640,968	\$ 2,044,000	\$ 84,000

Water Fund - 2017	Balance Jan 1	Increases	Decreases	Balance Dec 31	Due Within One Year
Bonds Payable	\$ 1,765,000	\$ -	\$ 100,000	\$ 1,665,000	\$ 100,000
Bond Discount	(25,749)	-	(1,717)	(24,032)	(1,717)
Total Long-Term Liabilities	\$ 1,739,251	\$ -	\$ 98,283	\$ 1,640,968	\$ 98,283

The annual requirements to amortize the outstanding long-term debt at December 31, 2018 is as follows:

Water Fund		
Year Ending December 31	Bonds Payable	
	Principal	Interest
2019	\$ 84,000	\$ 22,229
2020	85,000	29,400
2021	85,000	28,125
2022	90,000	26,850
2023	90,000	25,500
2024 - 2028	485,000	106,425
2029 - 2033	535,000	68,550
2034 - 2038	590,000	26,775
Totals	\$ 2,044,000	\$ 333,854

NOTE 7 PENSION PLAN

The City’s employees are provided retirement benefits under a defined contribution simplified employee pension plan with American Funds Company. The City is only responsible for current contributions. All full-time employees of the City are provided similar benefits. The employer contributes 6.12% of eligible compensation. The employer’s portion was \$9,125, \$10,168, and \$13,715 for the years ending December 31, 2018, 2017, and 2016 respectively.

NOTE 8 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that the City accounts for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 9 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.

CITY OF CANDONotes to the Financial Statements – Continued

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and for automobile, and \$520,391 for public assets (mobile equipment and portable property).

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$798,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 10 CONDUIT DEBT

Conduit debt obligations are defined as certain limited-obligation revenue bonds, certifications of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity. Neither the City, the state, nor any political subdivision thereof is obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

At December 31, 2018, the City is involved in conduit debt obligations as follows.

Industrial Revenue Bonds

The City is currently involved in a program that had issued Industrial Revenue Bonds. Industrial Revenue Bonds provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The loans and bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the loans and bonds, ownership of the acquired facilities transfers to the private-sector entity served by the loan issuance.

As of December 31, 2018, there was one Industrial Revenue Bond issuance which had a total principal balance of \$2,075,000.

NOTE 11 SPECIAL ITEM

In 2018, the City contributed a cost-share amount of \$479,000 to the Northeast Regional Water District for the Devils Lake Water Supply Project. The project renovated the Cando Water Treatment Plant and installed a pipeline to provide water services to the City. This amount is reported as a Special Item in the Enterprise Fund Statement of Revenues, Expenses, and Changes in Fund Net Position and the Government-wide Statement of Activities.

CITY OF CANDO

Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 181,955	\$ 181,955	\$ 175,436	\$ (6,519)
Licenses, Permits and Fees	8,125	8,125	14,540	6,415
Intergovernmental	93,662	93,662	94,039	377
Interest	1,500	1,500	2,304	804
Miscellaneous	27,100	27,100	15,583	(11,517)
Total Revenues	\$ 312,342	\$ 312,342	\$ 301,902	\$ (10,440)
EXPENDITURES				
General Government	\$ 147,038	\$ 147,038	\$ 148,074	\$ (1,036)
Public Safety	143,895	143,895	143,265	630
Public Works	6,734	6,734	6,643	91
Total Expenditures	\$ 297,667	\$ 297,667	\$ 297,982	\$ (315)
Excess (Deficiency) of Revenues Over Expenditures	\$ 14,675	\$ 14,675	\$ 3,920	\$ (10,755)
OTHER FINANCING SOURCES				
Transfers Out	\$ (6,175)	\$ (6,175)	\$ (3,000)	\$ 3,175
Total Other Financing Sources and Uses	\$ (6,175)	\$ (6,175)	\$ (3,000)	\$ 3,175
Net Change in Fund Balances	\$ 8,500	\$ 8,500	\$ 920	\$ (7,580)
Fund Balances - January 1	\$ 372,857	\$ 372,857	\$ 372,857	\$ -
Fund Balances - December 31	\$ 381,357	\$ 381,357	\$ 373,777	\$ (7,580)

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

CITY OF CANDO

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 35,882	\$ 35,882	\$ 34,315	\$ (1,567)
Special Assessment Taxes	-	-	1,635	1,635
Sales Taxes	166,000	166,000	192,321	26,321
Charges for Services	15,900	15,900	15,590	(310)
Intergovernmental	94,894	94,894	98,457	3,563
Miscellaneous	4,700	4,700	6,168	1,468
Total Revenues	\$ 317,376	\$ 317,376	\$ 348,486	\$ 31,110
EXPENDITURES				
General Government	\$ 111,975	\$ 288,834	\$ 177,938	\$ 110,896
Public Safety	14,677	15,777	11,614	4,163
Public Works	107,000	126,000	125,269	731
Total Expenditures	\$ 233,652	\$ 430,611	\$ 314,821	\$ 115,790
Excess (Deficiency) of Revenues Over Expenditures	\$ 83,724	\$ (113,235)	\$ 33,665	\$ 146,900
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 6,175	\$ 6,175	\$ 3,000	\$ (3,175)
Transfers Out	(64,750)	(64,750)	(175,400)	(110,650)
Total Other Financing Sources and Uses	\$ (58,575)	\$ (58,575)	\$ (172,400)	\$ (113,825)
Net Change in Fund Balances	\$ 25,149	\$ (171,810)	\$ (138,735)	\$ 33,075
Fund Balances - January 1	\$ 876,357	\$ 876,357	\$ 876,357	\$ -
Fund Balances - December 31	\$ 901,506	\$ 704,547	\$ 737,622	\$ 33,075

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

CITY OF CANDO

Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 180,500	\$ 180,500	\$ 179,019	\$ (1,481)
Licenses, Permits and Fees	8,125	8,125	11,232	3,107
Intergovernmental	109,529	109,529	94,439	(15,090)
Interest	1,500	1,500	1,810	310
Miscellaneous	11,000	11,000	32,907	21,907
Total Revenues	\$ 310,654	\$ 310,654	\$ 319,407	\$ 8,753
EXPENDITURES				
General Government	\$ 158,140	\$ 162,240	\$ 147,362	\$ 14,878
Public Safety	141,071	141,071	140,591	480
Public Works	5,884	5,884	6,962	(1,078)
Total Expenditures	\$ 305,095	\$ 309,195	\$ 294,915	\$ 14,280
Excess of Revenues Over Expenditures	\$ 5,559	\$ 1,459	\$ 24,492	\$ 23,033
OTHER FINANCING SOURCES				
Transfers Out	\$ (5,900)	\$ (5,900)	\$ (5,900)	\$ -
Net Change in Fund Balances	\$ (341)	\$ (4,441)	\$ 18,592	\$ 23,033
Fund Balances - January 1	\$ 354,265	\$ 354,265	\$ 354,265	\$ -
Fund Balances - December 31	\$ 353,924	\$ 349,824	\$ 372,857	\$ 23,033

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

CITY OF CANDO

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 30,400	\$ 30,400	\$ 30,455	\$ 55
Special Assessment Taxes	-	-	2,223	2,223
Sales Taxes	160,000	160,000	182,264	22,264
Charges for Services	1,500	1,500	5,830	4,330
Intergovernmental	96,300	96,300	96,384	84
Miscellaneous	6,100	6,100	11,498	5,398
Total Revenues	\$ 294,300	\$ 294,300	\$ 328,654	\$ 34,354
EXPENDITURES				
General Government	\$ 75,836	\$ 116,636	\$ 118,691	\$ (2,055)
Public Safety	13,677	18,277	17,900	377
Public Works	96,000	96,000	76,720	19,280
Total Expenditures	\$ 185,513	\$ 230,913	\$ 213,311	\$ 17,602
Excess of Revenues Over Expenditures	\$ 108,787	\$ 63,387	\$ 115,343	\$ 51,956
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 5,900	\$ 5,900	\$ 5,900	\$ -
Transfers Out	86,750	86,750	-	(86,750)
Total Other Financing Sources and Uses	\$ 92,650	\$ 92,650	\$ 5,900	\$ (86,750)
Net Change in Fund Balances	\$ 201,437	\$ 156,037	\$ 121,243	\$ (34,794)
Fund Balances - January 1	\$ 785,209	\$ 785,209	\$ 785,209	\$ -
Prior Period Adjustment	\$ -	\$ -	\$ (30,095)	\$ (86,750)
Fund Balances - January 1, as Restated	\$ 785,209	\$ 785,209	\$ 755,114	\$ (86,750)
Fund Balances - December 31	\$ 986,646	\$ 941,246	\$ 876,357	\$ (121,544)

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

CITY OF CANDO

Notes to the Supplementary Information
For the Years Ended December 31, 2018 and 2017

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

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

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

CITY OF CANDONotes to the Supplementary Information - Continued

NOTE 2 LEGAL COMPLIANCE - BUDGETS

The board of City commissioners amended the 2018 and 2017 City expenditures budget for various funds as follows:

2018	Original Budget	Amendment	Amended Budget
Special Revenue Fund	\$ 233,652	\$ 196,959	\$ 430,611

2017	Original Budget	Amendment	Amended Budget
General Fund	\$ 305,095	\$ 4,100	\$ 309,195
Special Revenue Fund	185,513	45,400	230,913

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

Independent Auditor's Report

Board of City Commissioners
City of Cando
Cando, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cando as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the City of Cando's basic financial statements, and have issued our report thereon dated February 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Cando'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 Cando's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Cando'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 described in the accompanying *schedule of audit findings*, we did identify 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 in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

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 deficiency described in the accompanying *schedule of audit findings* as item 2018-004 to be a significant deficiency.

CITY OF CANDO

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cando’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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Cando’s Response to Findings

City of Cando’s response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. The City of Cando’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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 25, 2020

CITY OF CANDO

Summary of Auditor's Results
For the Years Ended December 31, 2018 and 2017

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

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

CITY OF CANDO

Schedule of Audit Findings

For the Years Ended December 31, 2018 and 2017

2018-001 FINANCIAL STATEMENT PREPARATION – MATERIAL WEAKNESS

Condition

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

Criteria

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

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 of Cando's financial statements.

Repeat Finding

No.

Recommendation

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

City of Cando's Response

Agree. The City of Cando is aware that there is a risk having the State Auditor's Office prepare our financial statements and note disclosures. We may attempt to prepare the financial statements and note disclosures in the future.

2018-002 CAPITAL ASSET MAINTENANCE – MATERIAL WEAKNESS

Condition

A skid steer purchased in 2016, with a net value of \$49,117 at January 1, 2017, was missing from the capital asset schedule.

Criteria

The modified cash basis of accounting requires financial statements, which includes capital assets, to be presented free from material misstatements.

Cause

The City of Cando does not currently perform a periodic capital asset reconciliation to ensure its listing is accurate and free from material misstatement.

Effect

A prior period adjustment was required to the financial statements.

Repeat Finding

No.

Recommendation

We recommend the City of Cando perform a periodic capital asset reconciliation to ensure its listing is accurate and free from material misstatement.

City of Cando's Response

Agree. The City will perform an annual capital asset reconciliation.

2018-003 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The City of Cando has limited staff responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in the check register, maintain the general ledger, and perform bank reconciliations.

Criteria

Proper internal control surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates there should be sufficient accounting personnel, so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the City of Cando.

Cause

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

Effect

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

Repeat Finding

Yes.

Recommendation

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

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.
- Include the board in reviewing bank reconciliations, credit memos, manual adjustments, etc.

City of Cando's Response

We agree that a lack of segregation of duties exists and if the board does hire more administration that duties will be further segregated to the extent possible. We understand that this will be a repeated recommendation due to the limited number of staff employed by the City of Cando.

2018-004 FRAUD RISK ASSESSMENT – SIGNIFICANT DEFICIENCY

Condition

The City of Cando does not currently prepare a fraud risk assessment of the entire entity.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Cause

The City of Cando may not have considered preparing a fraud risk assessment.

Effect

If the City of Cando does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Repeat Finding

No.

Recommendation

We recommend the City of Cando prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

City of Cando's Response

Agree. We will perform a fraud risk assessment.

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GOVERNANCE COMMUNICATION

Board of City Commissioners
City of Cando
Cando, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cando, North Dakota, for the years ended December 31, 2018 and 2017 which collectively comprise the City of Cando's basic financial statements, and have issued our report thereon dated February 25, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated November 15, 2019, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Cando's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Cando's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Cando are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2018 and 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of

CITY OF CANDO

Governance Communication - Continued

the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 25, 2020.

Management Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

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

Other Audit Findings or Issues

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

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

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
February 25, 2020



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

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