

**CITY OF GLENBURN
GLENBURN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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CITY OF GLENBURN
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2017

Names

Office

Eric Folstad

Mayor

Dave Ashley

Council President

Dianne Hensen

Council

Rick Larson

Council

Chris Schilken

Council

Donna Zeltinger

City Auditor

INDEPENDENT AUDITOR'S REPORT

Mayor and Aldermen of the
City Council
City of Glenburn
Glenburn, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund, and the remaining fund information of the City of Glenburn, as of and for the year ended December 31, 2017, 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 1; 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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the City of Glenburn, as of December 31, 2017, and the respective changes in the modified cash basis financial position and where applicable, cash flows, thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 10, the City's beginning net position and fund balance were restated. 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 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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Glenburn's basic financial statements. The Budgetary Comparison Schedules, Schedule of Employer's Share of Net Pension Liability, Schedule of Employer Contributions, and Notes to Supplementary Information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules, Schedule of Employer's Share of Net Pension Liability, Schedule of Employer Contributions, and Notes to Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2020 on our consideration of the City of Glenburn's internal control over financial reporting and 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 Glenburn'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 Glenburn's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

April 22, 2020

CITY OF GLENBURN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 915,757	\$ 193,161	\$ 1,108,918
Noncurrent Assets			
Cash restricted by debt covenants	-	27,725	27,725
Capital assets (net of accumulated depreciation)	895,331	735,882	1,631,213
Total Noncurrent Assets	895,331	763,607	1,658,938
Total Assets	1,811,088	956,768	2,767,856
LIABILITIES			
Current Liabilities			
Cash overdraft	44,565	-	44,565
Bonds payable-current portion	48,000	20,000	68,000
Total current liabilities	92,565	20,000	112,565
Long-term Liabilities			
Bonds payable-non-current portion	321,000	250,000	571,000
Discount on bonds payable (net of accumulated amortization)	(3,675)	-	(3,675)
Total long-term liabilities	317,325	250,000	567,325
TOTAL LIABILITIES	409,890	270,000	679,890
NET POSITION			
Net Investment in Capital Assets	530,006	465,882	995,888
Restricted for:			
Debt service	113,014	27,725	140,739
Cemetery	2,485	-	2,485
Unrestricted	755,693	193,161	948,854
TOTAL NET POSITION	\$ 1,401,198	\$ 686,768	\$ 2,087,966

See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total			
Governmental Activities							
Current							
General government	\$ 127,858	\$ 5,336	\$ -	\$ -	\$ (122,522)	\$ -	\$ (122,522)
Public safety	16,020	444	-	-	(15,576)	-	(15,576)
Public works	62,179	-	-	-	(62,179)	-	(62,179)
Health and welfare	13,472	-	-	-	(13,472)	-	(13,472)
Culture and recreation	4,262	-	-	-	(4,262)	-	(4,262)
Debt service							
Interest	12,576	-	-	-	(12,576)	-	(12,576)
Bank fees	1,191	-	-	-	(1,191)	-	(1,191)
Total Governmental Activities	<u>237,558</u>	<u>5,780</u>	<u>-</u>	<u>-</u>	<u>(231,778)</u>	<u>-</u>	<u>(231,778)</u>
Business-Type Activities							
Water	75,859	76,748	-	-	-	889	889
Sewer	38,323	48,796	-	-	-	10,473	10,473
Sanitation	31,093	29,727	-	-	-	(1,366)	(1,366)
Total Business-Type Activities	<u>\$ 145,275</u>	<u>\$ 155,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>9,996</u>	<u>9,996</u>
General Receipts:							
General property taxes					111,288	-	111,288
Special assessments property tax					18,860	-	18,860
City sales tax					66,755	-	66,755
Unrestricted state aid					115,828	-	115,828
Interest and dividend income					5,155	-	5,155
Miscellaneous revenue					3,899	-	3,899
Total General Receipts and Transfers					<u>321,785</u>	<u>-</u>	<u>321,785</u>
Changes in Net Position					<u>90,007</u>	<u>9,996</u>	<u>100,003</u>
Net Position, January 1					1,267,335	676,772	1,944,107
Prior Period Adjustment (Note 9)					<u>43,856</u>	<u>-</u>	<u>43,856</u>
Net Position, January 1 - Restated					<u>1,311,191</u>	<u>676,772</u>	<u>1,987,963</u>
Net Position, December 31					<u>\$ 1,401,198</u>	<u>\$ 686,768</u>	<u>\$ 2,087,966</u>

See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	<u>Major Funds</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Highway Fund</u>	<u>Cemetery Fund</u>	
ASSETS					
Current assets					
Cash and cash equivalents	\$ 800,258	\$ 113,014	\$ -	\$ 2,485	\$ 915,757
TOTAL ASSETS	<u>\$ 800,258</u>	<u>\$ 113,014</u>	<u>\$ -</u>	<u>\$ 2,485</u>	<u>\$ 915,757</u>
LIABILITIES					
Cash overdraft	\$ -	\$ -	\$ 44,565	\$ -	\$ 44,565
Payroll taxes	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>44,565</u>	<u>-</u>	<u>44,565</u>
FUND BALANCE					
Restricted	-	113,014	-	2,485	115,499
Committed	7,805	-	-	-	7,805
Unassigned	792,453	-	(44,565)	-	747,888
TOTAL FUND BALANCE	<u>800,258</u>	<u>113,014</u>	<u>(44,565)</u>	<u>2,485</u>	<u>871,192</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 800,258</u>	<u>\$ 113,014</u>	<u>\$ -</u>	<u>\$ 2,485</u>	<u>\$ 915,757</u>

See Notes to the Financial Statements

CITY OF GLENBURN
RECONCILIATION OF STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance-governmental funds	\$	871,192
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	918,685	
Accumulated Depreciation	<u>(23,354)</u>	
Net		895,331

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported in the governmental funds:

Bonds Payable	(369,000)
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Discounts on bonds payable are treated as other financing uses in government funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds)

	<u>3,675</u>
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Total net position-governmental activities	\$	<u>1,401,198</u>
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See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Major Funds</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Highway Fund</u>	<u>Cemetery Funds</u>	
Revenues:					
Property taxes	\$ 108,975	\$ -	\$ -	\$ 2,313	\$ 111,288
Sales and use taxes	41,935	24,820	-	-	66,755
Special assessments	-	18,860	-	-	18,860
Licenses, permits and fees	5,336	-	-	-	5,336
State aid	83,299	-	32,529	-	115,828
Fines and forfeits	444	-	-	-	444
Miscellaneous revenues	3,899	-	-	-	3,899
Interest and dividends	5,155	-	-	-	5,155
	<u>249,043</u>	<u>43,680</u>	<u>32,529</u>	<u>2,313</u>	<u>327,565</u>
Total revenues					
	249,043	43,680	32,529	2,313	327,565
Expenditures:					
Current:					
General government	125,545	-	-	2,313	127,858
Public safety	16,020	-	-	-	16,020
Public works	24,881	-	13,944	-	38,825
Health and welfare	13,472	-	-	-	13,472
Culture and recreation	4,262	-	-	-	4,262
Debt service:					
Principal retirement	-	47,000	-	-	47,000
Interest	-	12,226	-	-	12,226
Bank fees	-	1,191	-	-	1,191
	<u>184,180</u>	<u>60,417</u>	<u>13,944</u>	<u>2,313</u>	<u>260,854</u>
Total expenditures					
	184,180	60,417	13,944	2,313	260,854
Excess of Revenues Over (Under) Expenditures	<u>64,863</u>	<u>(16,737)</u>	<u>18,585</u>	<u>-</u>	<u>66,711</u>
Net Change in Fund Balances	64,863	(16,737)	18,585	-	66,711
Fund Balance (Deficit), January 1	743,925	129,751	(63,150)	2,485	813,011
Prior Period Adjustment (See Note 9)	<u>(8,530)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,530)</u>
Fund Balance (Deficit), January 1 - Restated	<u>735,395</u>	<u>129,751</u>	<u>(63,150)</u>	<u>2,485</u>	<u>804,481</u>
Fund Balance (Deficit), December 31	<u>\$ 800,258</u>	<u>\$ 113,014</u>	<u>\$ (44,565)</u>	<u>\$ 2,485</u>	<u>\$ 871,192</u>

See Notes to the Financial Statements

CITY OF GLENBURN
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance- total governmental funds	\$	66,711
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 as depreciation expense. In the current period, these amounts are:		
Capital asset purchases capitalized	\$	-
Depreciation expense	<u>(23,354)</u>	(23,354)
Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position. Additionally, premiums or discounts related to the debt are included on the Statement of Net Position and amortized to interest expense over the life of the debt in the Statement of Activities.		
Amortization of Bond Discount		(350)
Principal Payments of Bonds Payable		<u>47,000</u>
Net change in net position of governmental activities	\$	<u>90,007</u>

See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2017

	Major Funds			Total
	Water	Sewer	Garbage	
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 15,736	\$ 160,901	\$ 16,524	\$ 193,161
Noncurrent Assets				
Cash Restricted by Debt Covenants	-	27,725	-	27,725
Capital Assets (Net of Accumulated Depreciation)	41,471	694,411	-	735,882
Total Noncurrent Assets	41,471	722,136	-	763,607
TOTAL ASSETS	57,207	883,037	16,524	956,768
LIABILITIES				
Current Liabilities				
Current Portion of Long - Term Debt	-	20,000	-	20,000
Noncurrent Liabilities				
Long-Term Debt, Net of Current Portion	-	250,000	-	250,000
TOTAL LIABILITIES	-	270,000	-	270,000
NET POSITION				
Net Investment in Capital Assets	41,471	424,411	-	465,882
Restricted for Debt Service	-	27,725	-	27,725
Unrestricted	15,736	160,901	16,524	193,161
TOTAL NET POSITION	\$ 57,207	\$ 613,037	\$ 16,524	\$ 686,768

See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Major Funds			Total
	Water	Sewer	Garbage	
Operating Revenues				
Charges for services	\$ 76,748	\$ 48,796	\$ 29,727	\$ 155,271
Operating Expenses				
Water	74,872	-	-	74,872
Sewer	-	4,217	-	4,217
Garbage	-	-	31,093	31,093
Interest	-	7,225	-	7,225
Bank fees	-	1,475	-	1,475
Depreciation	987	25,406	-	26,393
Total operating expenses	<u>75,859</u>	<u>38,323</u>	<u>31,093</u>	<u>145,275</u>
Change in Net Position	<u>889</u>	<u>10,473</u>	<u>(1,366)</u>	<u>9,996</u>
Net Position, January 1	<u>56,318</u>	<u>602,564</u>	<u>17,890</u>	<u>676,772</u>
Net Position, December 31	<u>\$ 57,207</u>	<u>\$ 613,037</u>	<u>\$ 16,524</u>	<u>\$ 686,768</u>

See Notes to the Financial Statements

CITY OF GLENBURN
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Major Funds			Total
	Water	Sewer	Garbage	
CASH FLOWS FROM (TO) OPERATING ACTIVITIES				
Cash received from customers	\$ 76,748	\$ 48,796	\$ 29,727	\$ 155,271
Cash payments to suppliers	(74,872)	(12,917)	(31,093)	(118,882)
Net cash flow from operating activities	<u>1,876</u>	<u>35,879</u>	<u>(1,366)</u>	<u>36,389</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of property and equipment	-	(22,705)	-	(22,705)
Payment on long-term borrowing	-	(20,000)	-	(20,000)
Net cash flow from capital and related financing activities	<u>-</u>	<u>(42,705)</u>	<u>-</u>	<u>(42,705)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,876	(6,826)	(1,366)	(6,316)
CASH AND CASH EQUIVALENTS, JANUARY 1, 2017	<u>13,860</u>	<u>167,727</u>	<u>17,890</u>	<u>199,477</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2017	<u><u>\$ 15,736</u></u>	<u><u>\$ 160,901</u></u>	<u><u>\$ 16,524</u></u>	<u><u>\$ 193,161</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income	\$ 889	\$ 10,473	\$ (1,366)	\$ 9,996
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	987	25,406	-	26,393
Net cash provided (used) by operating activities	<u><u>\$ 1,876</u></u>	<u><u>\$ 35,879</u></u>	<u><u>\$ (1,366)</u></u>	<u><u>\$ 36,389</u></u>

See Notes to the Financial Statements

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Glenburn, North Dakota (the City) provides general public services to property owners within the City, including but not limited to roads, water, sewer and garbage collection services.

The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the City of Glenburn. 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organizations governing body or an organization being fiscally dependent and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

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

Basis of Presentation

The City's accounting policy is to maintain the accounting records and present its financial statements 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.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

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

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds combined.

Major funds of the City's financial reporting entity are described below.

Governmental Funds

General Fund

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

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt, principal and interest.

Highway Fund

This special revenue fund accounts for revenues legally required to be used for roads, and the related costs of repairing or construction of the roads.

Proprietary Funds

The City's proprietary funds consist of three enterprise funds. Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector.

The City's enterprise funds are as follows:

Water Fund

This fund accounts for the activity of the water department. The department operates the water distribution system of the City of Glenburn.

Sewer Fund

This fund accounts for the activities of the sewer department. This department operates the sewage treatment plant, sewage pumping stations and collection systems in the City of Glenburn.

Garbage Fund

This fund accounts for the activities of the garbage collection system within the City of Glenburn.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Fiduciary Funds

The reporting focus of fiduciary funds is on net assets. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Currently, the City of Glenburn has no fiduciary funds.

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe “how” transactions are recorded within various financial statements.

Government-wide financial statements: In the government-wide Statement of Net Position and the Statement of Activities, the government-type activities, business-type activities, and the component unit are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund financial statements: 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 within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City of Glenburn’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting

The basis of accounting determines “when” transactions are recorded regardless of the measurement focus applied.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type 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 capital assets and related depreciation and long-term debt in the government-wide statements and proprietary fund 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.

Budgets and Budgetary Accounting

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting for each of its major governmental funds.

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

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- 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 budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement 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 revenue 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.

Cash and Equivalents

Deposits must be either deposited in the Bank of North Dakota or in another financial institution situated and doing business within this state. Deposits, other than those with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

State statutes authorize the City to invest in:

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

At December 31, 2017, the City of Glenburn's cash and cash equivalents included \$212,500 of certificates of deposits stated at cost.

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.

Capital Assets

Capital assets include infrastructure, buildings and equipment. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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 the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Building	50 years
Infrastructure	50 years
Equipment	7 to 10 years
Vehicles	7 to 10 years

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Sources" and "Expenditures", respectively, in the fund financial statements.

Compensated Absences

Each continuous full-time employee is granted vacation benefits from 96 hours to 192 hours per year based on years of service. The maximum number of vacation hours that can be carried over at year-end is a total of 240 hours. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month (96 hours per year) and there is no maximum accumulation. Upon termination, employees are not paid for any sick leave accumulated but are paid for all vacation earned up to the date of separation.

Net Position

In the government-wide financial statements, equity is classified as "net position" and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Fund Balance

The difference between assets, deferred inflows/outflows and liabilities is "Net Position" on the government wide financial statements and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Non-spendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority which is the Board through a resolution.

Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Minimum Fund Balance Policy

The Council has not formally adopted a fund balance policy for the General Fund.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover any collateral securities that are not in the possession of an outside party. As discussed in Note 1, state statutes require that market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. During the year ended December 31, 2017, City deposits were adequately protected by insurance or collateral.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Inter-fund activities within the City's governmental activities and its business-type activities, are eliminated in the statement of activities.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

At December 31, 2017, the deposits of the City were entirely covered by federal depository insurance or by the collateral held by the City's custodial bank in the City's name. During the year ended December 31, 2017, the City held investments in three certificates of deposit held at First Western Bank and Trust in amounts of \$100,000, \$100,000 and \$12,500.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - CASH RESTRICTED BY DEBT COVENANTS

Cash restricted by debt covenants consists of amounts required to be deposited into a reserve accounts under the terms of the bond payable, as discussed in Note 5. Beginning September 1, 2010, \$5,545 must be deposited in the reserve account each September 1 through 2014, resulting in a final reserve balance of \$27,725. As of December 31, 2017, the balance of the reserve was \$27,725.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities				
Non Depreciable				
Land	\$ 4,500	\$ -	\$ -	\$ 4,500
Depreciable				
Buildings	257,873	-	-	257,873
Infrastructure	706,538	-	-	706,538
Equipment	96,396	-	-	96,396
Vehicles	12,200	-	-	12,200
Total Gov't Activities Capital Assets	<u>1,077,507</u>	<u> </u>	<u> </u>	<u>1,077,507</u>
Accumulated Depreciation				
Buildings	23,109	5,157	-	28,266
Infrastructure	37,349	14,131	-	51,480
Equipment	86,164	4,066	-	90,230
Vehicles	12,200	-	-	12,200
Total Accumulated Depreciation	<u>158,822</u>	<u>23,354</u>	<u>-</u>	<u>182,176</u>
Net Capital Assets - Gov't Activities	<u>\$ 918,685</u>	<u>\$ (23,354)</u>	<u>\$ -</u>	<u>\$ 895,331</u>

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Changes in capital assets for the business-type activities for the year ended December 31, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-Type Activities				
Non Depreciable				
Land	\$ 31,575	\$ -	\$ -	\$ 31,575
Depreciable				
Infrastructure	765,998	22,705	-	788,703
Equipment	109,220	-	-	109,220
Total Water Capital Assets	<u>906,793</u>	<u>22,705</u>	<u>-</u>	<u>929,498</u>
Accumulated Depreciation				
Buildings and improvements	101,691	15,471	-	117,162
Equipment and vehicles	65,532	10,922	-	76,454
Total Accumulated Depreciation	<u>167,223</u>	<u>26,393</u>	<u>-</u>	<u>193,616</u>
Net Capital Assets	<u>\$ 739,570</u>	<u>\$ (3,688)</u>	<u>\$ -</u>	<u>\$ 735,882</u>

Depreciation expenses charged to the various functions in the Statement of Activities are as follows:

Governmental Activities	
General government	<u>\$ 23,354</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 23,354</u>
Business-Type Activities	
Water	\$ 987
Sewer	<u>25,406</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 26,393</u>

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 5 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in the governmental and business type activities long-term debt by individual issue for the year ended December 31, 2017:

Debt Issuance	Balance 12-31-16	New Issues	Retired	Other	Balance 12-31-17	Due within One Year
Sales Tax Revenue Bond, Series 2012	\$ 141,000	\$ -	\$ 22,000	\$ -	\$ 119,000	\$ 23,000
Refunding Improvement Bond of 2013	275,000	-	25,000	-	250,000	25,000
Bond Discount	(4,025)	-	350	-	(3,675)	-
	<u>\$ 411,975</u>	<u>\$ -</u>	<u>\$ 47,350</u>	<u>\$ -</u>	<u>\$ 365,325</u>	<u>\$ 48,000</u>
Business-Type Activities						
Issue	Balance 12-31-16	New Issues	Retired	Balance 12-31-17	Due within One Year	
SRF Revenue Bond	\$ 290,000	\$ -	\$ 20,000	\$ 270,000	\$ 20,000	
	<u>\$ 290,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ 270,000</u>	<u>\$ 20,000</u>	

Loans and Bonds Payable

SRF Loan

On June 26, 2009, the City of Glenburn was granted a loan in the amount of \$824,900 under the Clean Water State Revolving Fund Program, which is considered a federal award. The loan is primarily being used to expand Glenburn's lagoon and improve the City's lift station.

Upon closing, \$412,450 of the loan was forgiven, with the remaining \$412,450 being granted in the form of a revenue bond. Cash from both the bond and the grant was received upon submission of requests for payment for bills due stemming from the lagoon and lift station improvements, as well as dredging the lagoon and purchasing a tractor.

The bond is dated July 1, 2009 and matures on September 1, 2029. Payments began in 2010 and are made semi-annually. The average annual payment, including principal and interest, is \$26,546. The bond's interest rate is 2.5 percent. The bond payable is secured by the operating income, excluding depreciation and interest expense, of the Sewer Fund.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

As of December 31, 2017, the balance owed on the loan was \$270,000. Debt service requirements are as follows:

Year	Principal	Interest	Total
2018	\$ 20,000	\$ 6,750	\$ 26,750
2019	20,000	6,250	26,250
2020	20,000	6,000	26,000
2021	20,000	5,750	25,750
2022	20,000	5,500	25,500
2023-2027	118,000	15,600	133,600
2028-2029	52,000	1,950	53,950
Totals	<u>\$ 270,000</u>	<u>\$ 47,800</u>	<u>\$ 317,800</u>

Sales Tax Revenue Bond

On November 5, 2012, the City of Glenburn authorized the issuance of the Sales Tax Revenue Bonds of 2012 in the amount of \$250,000 to purchase a building for use as a City shop and to house equipment, materials and supplies necessary to maintain the streets, water and sewer systems. The bonds are dated November 30, 2012, with annual principal payments ranging from \$20,000 to \$25,000, and semi-annual interest payments at a 2% rate. Payments end on December 1, 2022. The bonds are paid for by the Debt Service Fund, and are payable from a two percent City sales tax.

Refunding Improvement Bonds

On July 15, 2013, the City of Glenburn authorized the issuance of the Refunding Improvement Bonds of 2015 in the amount of \$350,000 to pave Chelsey Street. The bonds are dated July 15, 2013, with annual principal payments ranging from \$20,000 to \$25,000 and semi-annual interest payments ranging from 2.75% to 4%. Payments end on May 1, 2028. The bond is paid for by the Debt Service Fund and is payable from special assessment real estate taxes.

The discount of \$5,250 was capitalized and will be amortized to interest expense on a straight-line basis (as the difference between the straight-line and effective interest methods were immaterial). The amount amortized in the current year was \$350.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Debt service requirements for bonds payable are as follows:

Year	Principal	Interest	Total
2018	\$ 48,000	\$ 11,099	\$ 59,099
2019	48,000	9,951	57,951
2020	49,000	8,804	57,804
2021	49,000	7,480	56,480
2022	50,000	6,000	56,000
2023-2027	105,000	14,100	119,100
2028	20,000	400	20,400
Totals	<u>\$ 369,000</u>	<u>\$ 57,834</u>	<u>\$ 426,834</u>

NOTE 6 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 E. Broadway, Suite 505; PO Box 1214; Bismarck ND 58502-1214.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees; and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016, the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. The City's contributions to the pension plan were \$4,252 for the year ended December 31, 2017.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

Information about the City's Proportionate Share of Pension Obligation

Commitment Related to Proportionate Share of Net Pension Liability

At December 31, 2017, NDPERS, as a whole, reported a total net pension liability of \$1,607,328,057 of which the City's proportionate share amounted to \$93,305. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the NDPERS net pension liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

The NDPERS net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's covered payroll relative to the covered payroll of all participating local governments, actuarially determined. At December 31, 2017, the City's proportion was 0.005805 percent, which was an increase of 0.000171 from its proportion measured as of December 31, 2016.

Actuarial assumptions

Actuarial assumptions used in the determination of net pension liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net pension liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

NOTE 7 - RISK MANAGEMENT

The City of Glenburn 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 Glenburn pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile insurance and \$255,960 for inland marine coverage.

The City of Glenburn 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 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City with a blanket fidelity bond coverage in the amount of \$331,000 for its employees. The State Bonding does not currently charge any premium for this coverage.

The City of Glenburn has insurance with North Dakota Workforce Safety and Insurance. The City provides a wage benefit paid directly to the full-time city manager for the purchase of health insurance. The benefit is prorated for the part-time city auditor

CITY OF GLENBURN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2017

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

NOTE 8 - FUND BALANCE

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	General	Debt Service	Highway Fund	Cemetery Fund	Total
Restricted					
Debt service	\$ -	\$ 113,014	\$ -	\$ -	\$ 113,014
Cemetery	-	-	-	2,485	2,485
Committed					
Advertising	1,548	-	-	-	1,548
Emergency	6,257	-	-	-	6,257
Unassigned	<u>792,453</u>	<u>-</u>	<u>(44,565)</u>	<u>-</u>	<u>747,888</u>
Total Fund Balance	<u>\$ 800,258</u>	<u>\$ 113,014</u>	<u>\$ (44,565)</u>	<u>\$ 2,485</u>	<u>\$ 871,192</u>

NOTE 9 - PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to properly exclude investments, payroll liabilities, accrued compensated absences, and net pension liability under the modified cash basis of accounting. As a result, beginning general fund balance was decreased by \$8,530 and beginning net position of governmental activities was increased by \$43,856.

NOTE 10 - SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. At this time, the extent of the impact this matter will have on the City's results of operations and financial condition is uncertain. However, the impact of the pandemic on financial markets and consumer spending may influence the collectability of customer receivables.

No other significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through April 22, 2020, which is the date these financial statements were available to be issued.

CITY OF GLENBURN
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenue:				
Property taxes	\$ 25,200	\$ 25,200	\$ 108,975	\$ 83,775
Sales and use taxes	-	-	41,935	41,935
Special assessments	-	-	-	-
Licenses, permits and fees	2,170	2,170	5,336	3,166
State aid	59,000	59,000	83,299	24,299
Charges for services	600	600	-	(600)
Fines and forfeits	500	500	444	(56)
Miscellaneous revenues	12,935	12,935	3,899	(9,036)
Interest and dividends	-	-	5,155	5,155
Total revenues	<u>100,405</u>	<u>100,405</u>	<u>249,043</u>	<u>148,638</u>
Expenditures:				
Current:				
General government	136,730	136,730	125,545	11,185
Public safety	17,000	17,000	16,020	980
Public works	-	-	24,881	(24,881)
Highways and streets	92,800	92,800	-	92,800
Health and welfare	13,500	13,500	13,472	28
Culture and recreation	-	-	4,262	(4,262)
Total expenditures	<u>260,030</u>	<u>260,030</u>	<u>184,180</u>	<u>75,850</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(159,625)</u>	<u>(159,625)</u>	<u>64,863</u>	<u>224,488</u>
Other Financing Sources (Uses):				
Operating transfers in	51,622	51,622	-	(51,622)
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>51,622</u>	<u>51,622</u>	<u>-</u>	<u>(51,622)</u>
Net Change in Fund Balance	(108,003)	(108,003)	64,863	172,866
Fund Balance (Deficit), Beginning of Year - Restated	<u>743,925</u>	<u>743,925</u>	<u>735,395</u>	<u>(8,530)</u>
Fund Balance (Deficit), End of Year	<u>\$ 635,922</u>	<u>\$ 635,922</u>	<u>\$ 800,258</u>	<u>\$ 164,336</u>

See Note to the Budgetary Comparison Schedule

CITY OF GLENBURN
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
DEBT SERVICE FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenue:				
Taxes	\$ 30,300	\$ 30,300	\$ 43,680	\$ 13,380
Total revenues	<u>30,300</u>	<u>30,300</u>	<u>43,680</u>	<u>13,380</u>
Expenditures:				
Current:				
Principal	43,410	43,410	47,000	(3,590)
Interest	10,045	10,045	12,226	(2,181)
Bank fees	1,445	1,445	1,191	254
Total expenditures	<u>54,900</u>	<u>54,900</u>	<u>60,417</u>	<u>(5,517)</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(24,600)</u>	<u>(24,600)</u>	<u>(16,737)</u>	<u>7,863</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(24,600)	(24,600)	(16,737)	7,863
Fund Balance (Deficit), Beginning of Year	<u>129,751</u>	<u>129,751</u>	<u>129,751</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ 105,151</u>	<u>\$ 105,151</u>	<u>\$ 113,014</u>	<u>\$ 7,863</u>

See Note to the Budgetary Comparison Schedule

CITY OF GLENBURN
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenue:				
Intergovernmental revenues	\$ -	\$ -	\$ 32,529	\$ 32,529
Total revenues	<u>-</u>	<u>-</u>	<u>32,529</u>	<u>32,529</u>
Expenditures:				
Current:				
Public works	160,500	160,500	13,944	146,556
Total expenditures	<u>160,500</u>	<u>160,500</u>	<u>13,944</u>	<u>146,556</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(160,500)</u>	<u>(160,500)</u>	<u>18,585</u>	<u>179,085</u>
Other Financing Sources (Uses):				
Operating transfers in	160,500	160,500	-	(160,500)
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>160,500</u>	<u>160,500</u>	<u>-</u>	<u>(160,500)</u>
Net Change in Fund Balance	-	-	18,585	18,585
Fund Balance (Deficit), Beginning of Year	<u>(63,150)</u>	<u>(63,150)</u>	<u>(63,150)</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ (63,150)</u>	<u>\$ (63,150)</u>	<u>\$ (44,565)</u>	<u>\$ 18,585</u>

See Note to the Budgetary Comparison Schedule

CITY OF GLENBURN
NOTE TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 BUDGETARY COMPARISON

Basis of Accounting

Based upon available financial information, the city auditor prepares the City's budget. The budget is prepared on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them.

Relevant Dates

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

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- 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 budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement 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 revenue 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.

Actual Expenditures in Excess of Budget

The City's expenditures exceeded budget in the Debt Service Fund by \$5,517 during 2017. No remedial action is anticipated or required by the City with respect to these excess expenditures.

CITY OF GLENBURN
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
ND PUBLIC EMPLOYEE RETIREMENT SYSTEM
LAST TEN FISCAL YEARS (PROSPECTIVELY)
YEAR OF IMPLEMENTATION

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.005805%	\$ 93,305	\$ 59,261	157.45%	61.98%
2016	0.005634%	54,909	56,773	96.72%	70.46%
2015	0.006103%	41,499	54,371	76.33%	77.15%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous year.

The City implemented GASB Statement No. 68 for the year ended December 31, 2015. Information for the prior years is not available.

See Note to the Supplementary Information

CITY OF GLENBURN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (PROSPECTIVELY)
YEAR OF IMPLEMENTATION

Year Ended Dec 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2017	\$ 4,252	\$ (4,252)	-	\$ 59,719	7.12%
2016	4,042	(4,042)	-	56,773	7.12%
2015	3,871	(3,871)	-	54,371	7.12%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

The City implemented GASB Statement No. 68 for its year ended December 31, 2015. Information for the prior years is not available.

See Note to the Supplementary Information

CITY OF GLENBURN, NORTH DAKOTA
NOTE TO THE SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017

NOTE 1 CHANGES OF ASSUMPTIONS

Amounts reported in 2017 reflect actuarial assumption changes effective July 1, 2017 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Governing Board
City of Glenburn
Glenburn, North Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the remaining fund information of the City of Glenburn, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Glenburn'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 Glenburn's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Glenburn's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

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

City of Glenburn's Response to Findings

The City of Glenburn's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Glenburn's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

April 22, 2020

CITY OF GLENBURN
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

Control Deficiency 2017-001 – Material Weakness

Criteria

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

Condition

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

Cause

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

Effect

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

Recommendation

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

Views of Responsible Officials and Planned Corrective Actions

The City Council will continue to review financial information as a compensating control.

CITY OF GLENBURN
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
DECEMBER 31, 2017

Control Deficiency 2017-002 – Material Weakness

Criteria

An appropriate system of internal control requires the entity to prepare financial statements in compliance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting.

Condition

The City's auditor prepares periodic financial information for internal use that meets the needs of the Council. However, the City currently does not prepare financial statements, including accompanying note disclosures, as required by the modified cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate resources for the preparation of the financial statements.

Effect

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

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to financial, efficiency and time constraints, it has been determined by the City's management that it is in the best interest of the City to have the financial statements and accompanying note disclosures prepared by the auditing firm at the time of the audit.