

CITY OF GLEN ULLIN

AUDIT REPORT

December 31, 2017

CITY OF GLEN ULLIN
GLEN ULLIN, NORTH DAKOTA

TABLE OF CONTENTS
For The Year Ended December 31, 2017

	<u>PAGE(S)</u>
List of Officials	1
Independent Auditor's Report	2-4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Accrual Basis	5
Statement of Activities – Modified Accrual Basis	6
Balance Sheet – Modified Accrual Basis – Governmental Funds	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Accrual Basis – Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Modified Accrual Basis	9
Statement of Net Position – Modified Accrual Basis – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Accrual Basis – Proprietary Funds	11
Statement of Cash Flows – Modified Accrual Basis – Proprietary Funds	12
Notes to the Financial Statements	13-21
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedules – Modified Accrual Basis	
General Fund	22
City Share Fund	23
City Sales Tax Fund	24
Notes to Required Supplementary Information	25
SUPPLEMENTARY REPORTS:	
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 <i>Government Auditing Standards</i>	26-27
Schedule of Findings	28-29

CITY OF GLEN ULLIN

LIST OF OFFICIALS

December 31, 2017

Mayor	Audrey Duppong
Council President	Doug Martwick
Council Vice President	Gary Glasser
Council Member	Anthony Schirado
Council Member	Alex Martinez
Council Member	Dennis Emter
Council Member	Sid White
City Attorney	John Mahoney
City Auditor	Vicki Horst

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Glen Ullin
Glen Ullin, 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 Glen Ullin, 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 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 accrual basis of accounting described in Note 1; this includes determining that the modified accrual 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.

INDEPENDENT AUDITOR'S REPORT

Basis for Adverse Opinion on Governmental and Business-Type Activities and Proprietary Funds

Management has not recorded capital assets in the governmental and business-type activities and proprietary funds and, accordingly, has not recorded depreciation expense on those assets. The modified accrual basis of accounting requires that those assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental and business-type activities and proprietary funds. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities and proprietary funds has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on Governmental and Business-Type Activities and Proprietary Funds” paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental and business-type activities and proprietary funds of the City of Glen Ullin, as of December 31, 2017, or the changes in financial position thereof for the year then ended in accordance with the modified accrual basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified accrual basis of each major governmental fund, and the aggregate remaining fund information of the City of Glen Ullin, as of December 31, 2017, and the respective changes in financial position – modified accrual basis for the year then ended in accordance with the modified accrual basis of accounting.

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 accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

A comprehensive basis of accounting other than accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 22 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019 on our consideration of the City of Glen Ullin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Glen Ullin's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
September 27, 2019

City of Glen Ullin
Statement of Net Position - Modified Accrual Basis
December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 432,075	\$ 59,714	\$ 491,789
Investments	353,721	243,767	597,488
Accounts Receivable	394,784	-	394,784
Due from County Treasurer	29,617	-	29,617
Taxes Receivable, Net	<u>139,660</u>	<u>-</u>	<u>139,660</u>
 TOTAL ASSETS	 1,349,857	 303,481	 1,653,338
LIABILITIES			
Current Liabilities:			
Accounts Payable	394,784	-	394,784
Long-Term Liabilities:			
Portion Due or Payable within One Year			
Loans Payable	44,355	-	44,355
Portion Due or Payable after One Year			
Loans Payable	<u>997,048</u>	<u>-</u>	<u>997,048</u>
TOTAL LIABILITIES	<u>1,436,187</u>	<u>-</u>	<u>1,436,187</u>
NET POSITION			
Restricted for:			
Special Purposes	558,809	-	558,809
Unrestricted	<u>(645,139)</u>	<u>303,481</u>	<u>(341,658)</u>
 TOTAL NET POSITION	 <u>\$ (86,330)</u>	 <u>\$ 303,481</u>	 <u>\$ 217,151</u>

City of Glen Ullin
Statement of Activities - Modified Accrual Basis
For the year ended December 31, 2017

Functions/Programs	Net (Expense) Revenue & Changes in Net Position						
	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Primary Governments</u>							
<u>Governmental Activities</u>							
General Government	\$ 128,594	\$ 3,436	\$ 42,794	\$ -	\$ (82,364)		\$ (82,364)
Public Safety	40,920	-	-	-	(40,920)		(40,920)
Public Works	1,076,212	20,390	72,872	-	(982,950)		(982,950)
Culture and Recreation	18,558	-	-	-	(18,558)		(18,558)
Airport	81,379	-	43,570	-	(37,809)		(37,809)
Interest & Service Charges	527	-	-	-	(527)		(527)
Total Governmental Activities	<u>1,346,190</u>	<u>23,826</u>	<u>159,236</u>	<u>-</u>	<u>(1,163,128)</u>		<u>(1,163,128)</u>
<u>Business-type Activities</u>							
Water Operating	165,981	247,596	-	-	-	\$ 81,615	81,615
Sewer Operating	123,668	39,155	-	-	-	(84,513)	(84,513)
Garbage Operating	3,043	1,995	-	-	-	(1,048)	(1,048)
Garbage Services	93,000	101,131	-	-	-	8,131	8,131
Street Lights Operating	9,982	-	-	-	-	(9,982)	(9,982)
Meter Operating	681	150	-	-	-	(531)	(531)
Total Business-type Activities	<u>396,355</u>	<u>390,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,328)</u>	<u>(6,328)</u>
Total Primary Government	<u>\$ 1,742,545</u>	<u>\$ 413,853</u>	<u>\$ 159,236</u>	<u>\$ -</u>	<u>(1,163,128)</u>	<u>(6,328)</u>	<u>(1,169,456)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					137,576	-	137,576
Property Taxes, Levied for Special Reserve					28,685	-	28,685
City Sales Tax					43,829	-	43,829
Cigarette Taxes					2,322	-	2,322
Earnings on Investments					7,584	1,048	8,632
Other Revenues					20,759	-	20,759
Transfers					(40,000)	40,000	-
Total General Revenues					<u>200,755</u>	<u>41,048</u>	<u>241,803</u>
Change in Net Position					(962,373)	34,720	(927,653)
Net Position - Beginning of Year					876,043	268,761	1,144,804
Net Position - End of Year					<u>\$ (86,330)</u>	<u>\$ 303,481</u>	<u>\$ 217,151</u>

City of Glen Ullin
Balance Sheet - Modified Accrual Basis - Governmental Funds
December 31, 2017

	Major Funds					Other	Total
	General Fund	City Share Fund	City Sales Tax Fund	2017 South Avenue Project	2018 Phase I RD Project	Governmental Funds	Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 14,518	\$ 6,969	\$ 361,468	\$ -	\$ -	\$ 49,120	\$ 432,075
Investments	97,273	121,956	9,700	-	-	124,792	353,721
Accounts Receivable	-	-	-	-	394,784	-	394,784
Due from County Treasurer	24,112	2,074	-	-	-	3,431	29,617
Taxes Receivable, Net	119,182	7,712	-	-	-	12,766	139,660
TOTAL ASSETS	<u>\$ 255,085</u>	<u>\$ 138,711</u>	<u>\$ 371,168</u>	<u>\$ -</u>	<u>\$ 394,784</u>	<u>\$ 190,109</u>	<u>\$ 1,349,857</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Liabilities:							
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 394,784	\$ -	\$ 394,784
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>394,784</u>	<u>-</u>	<u>394,784</u>
Deferred Inflows of Resources							
Uncollected Taxes	119,182	7,712	-	-	-	12,766	139,660
Total Liabilities and Deferred Inflows of Resources	<u>119,182</u>	<u>7,712</u>	<u>-</u>	<u>-</u>	<u>394,784</u>	<u>12,766</u>	<u>534,444</u>
Fund Balances:							
Restricted	-	130,999	371,168	-	-	56,642	558,809
Assigned	-	-	-	-	-	120,701	120,701
Unassigned	135,903	-	-	-	-	-	135,903
Total Fund Balances	<u>135,903</u>	<u>130,999</u>	<u>371,168</u>	<u>-</u>	<u>-</u>	<u>177,343</u>	<u>815,413</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 255,085</u>	<u>\$ 138,711</u>	<u>\$ 371,168</u>	<u>\$ -</u>	<u>\$ 394,784</u>	<u>\$ 190,109</u>	<u>\$ 1,349,857</u>
Total fund balances - governmental funds							\$ 815,413
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:							
Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities, both current and long-term, are reported in the statement of net assets. Balances at December 31, 2017 are:							(1,041,403)
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds.							139,660
Net position of governmental activities							<u>\$ (86,330)</u>

City of Glen Ullin
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Accrual Basis - Governmental Funds
For the year ended December 31, 2017

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	City Share Fund	City Sales Tax Fund	2017 South Avenue Project	2018 Phase I RD Project		
REVENUES							
Taxes	\$ 123,796	\$ 9,668	\$ 43,829	\$ -	\$ -	\$ 76,585	\$ 253,878
Licenses, Permits, and Fees	3,396	-	-	-	-	-	3,396
Intergovernmental	45,116	-	-	-	-	55,870	100,986
Charges for Services	6,315	-	-	-	-	14,075	20,390
Fines	40	-	-	-	-	-	40
Earnings on Investments	3,419	2,328	692	-	-	1,145	7,584
Miscellaneous	6,425	-	-	-	-	14,334	20,759
TOTAL REVENUES	188,507	11,996	44,521	-	-	162,009	407,033
EXPENDITURES							
Current:							
General Government	90,915	-	-	-	-	37,679	128,594
Public Safety	40,920	-	-	-	-	-	40,920
Public Works	-	-	-	1,017,000	394,784	59,212	1,470,996
Culture and Recreation	-	-	-	-	-	18,558	18,558
Airport	-	-	-	-	-	81,379	81,379
Debt Service:							
Principal	-	-	-	-	-	2,537	2,537
Interest	-	-	-	-	-	527	527
TOTAL EXPENDITURES	131,835	-	-	1,017,000	394,784	199,892	1,743,511
Excess (Deficiency) of Revenues Over (Under) Expenditures	56,672	11,996	44,521	(1,017,000)	(394,784)	(37,883)	(1,336,478)
OTHER FINANCING SOURCES (USES)							
Loan Proceeds	-	-	-	1,017,000	-	26,940	1,043,940
Pending Financing Proceeds	-	-	-	-	394,784	-	394,784
Transfers In (Out)	(15,064)	-	(40,000)	-	-	15,064	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)	(15,064)	-	(40,000)	1,017,000	394,784	42,004	1,398,724
NET CHANGE IN FUND BALANCES	41,608	11,996	4,521	-	-	4,121	62,246
Fund Balances - January 1, 2017	94,295	119,003	366,647	-	-	173,222	753,167
FUND BALANCES - DECEMBER 31, 2017	\$ 135,903	\$ 130,999	\$ 371,168	\$ -	\$ -	\$ 177,343	\$ 815,413

City of Glen Ullin
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes
in Fund Balances to the Statement of Activities - Modified Accrual Basis
For the year ended December 31, 2017

Net change in fund balances - total governmental funds	\$	62,246
--	----	--------

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

The proceeds of debt issuances are reported as financing resources in governmental funds and this contributes to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which debt proceeds exceeded repayment of debt during the year.

Proceeds from the Issuance of Debt	\$	(1,043,940)	
Repayment of Debt		2,537	
			(1,041,403)

Some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues in the governmental funds. Uncollected tax revenues decreased by this amount this year.

16,784

Change in net position of governmental activities	\$	<u>(962,373)</u>
---	----	------------------

City of Glen Ullin
Statement of Net Position - Modified Accrual Basis - Proprietary Funds
December 31, 2017

	Major Enterprise Funds			
	Water Fund	Sewer Fund	Other Enterprise Funds	Totals
ASSETS				
Cash and Cash Equivalents	\$ 35,385	\$ -	\$ 24,329	\$ 59,714
Investments	150,383	5,198	88,186	243,767
Due from Other Funds	<u>13,923</u>	<u>-</u>	<u>-</u>	<u>13,923</u>
TOTAL ASSETS	199,691	5,198	112,515	317,404
LIABILITIES				
Cash Due to Other Funds	<u>-</u>	<u>13,923</u>	<u>-</u>	<u>13,923</u>
TOTAL LIABILITIES	-	13,923	-	13,923
NET POSITION				
Unrestricted	<u>199,691</u>	<u>(8,725)</u>	<u>112,515</u>	<u>303,481</u>
TOTAL NET POSITION	\$ 199,691	\$ (8,725)	\$ 112,515	\$ 303,481

City of Glen Ullin
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Accrual Basis - Proprietary Funds
For the year ended December 31, 2017

	<u>Major Enterprise Funds</u>		Other Enterprise Funds	Total
	<u>Water Fund</u>	<u>Sewer Fund</u>		
OPERATING REVENUES:				
Sewer Charges	\$ -	\$ 39,155	\$ -	\$ 39,155
Garbage Collection Charges	-	-	103,126	103,126
Water Enterprise	-	-	150	150
Water Charges	135,283	-	-	135,283
Miscellaneous Charges	<u>90,990</u>	<u>-</u>	<u>21,323</u>	<u>112,313</u>
TOTAL OPERATING REVENUES	226,273	39,155	124,599	390,027
OPERATING EXPENSES:				
Operation & Maintenance	41,759	108,634	10,663	161,056
Salaries & Benefits	21,874	15,034	-	36,908
Garbage Operations	-	-	96,043	96,043
Water System	<u>102,348</u>	<u>-</u>	<u>-</u>	<u>102,348</u>
TOTAL OPERATING EXPENSES	<u>165,981</u>	<u>123,668</u>	<u>106,706</u>	<u>396,355</u>
INCOME (LOSS) FROM OPERATIONS	60,292	(84,513)	17,893	(6,328)
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	<u>836</u>	<u>-</u>	<u>212</u>	<u>1,048</u>
INCOME (LOSS) BEFORE TRANSFERS	61,128	(84,513)	18,105	(5,280)
Transfers In (Out)	<u>(25,000)</u>	<u>65,000</u>	<u>-</u>	<u>40,000</u>
CHANGE IN NET POSITION	36,128	(19,513)	18,105	34,720
Net Position - January 1, 2017	<u>163,563</u>	<u>10,788</u>	<u>94,410</u>	<u>268,761</u>
NET POSITION - DECEMBER 31, 2017	<u>\$ 199,691</u>	<u>\$ (8,725)</u>	<u>\$ 112,515</u>	<u>\$ 303,481</u>

City of Glen Ullin
Statement of Cash Flows
Modified Accrual Basis - Proprietary Funds
For the year ended December 31, 2017

	<u>Major Enterprise Funds</u>		<u>Other Enterprise Funds</u>	<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>		
Cash flows from operating activities				
Receipts from customers	\$ 226,273	\$ 39,155	\$ 124,599	\$ 390,027
Payments to employees	(21,874)	(15,034)	-	(36,908)
Payments to suppliers	<u>(144,107)</u>	<u>(108,634)</u>	<u>(106,706)</u>	<u>(359,447)</u>
Net cash provided (used) by operating activities	60,292	(84,513)	17,893	(6,328)
Cash flows from noncapital financing activities				
Increase (decrease) cash due to other funds	-	13,923	13,923	13,923
(Increase) decrease cash due from other funds	(13,923)	-	-	(13,923)
Transfers in (out)	<u>(25,000)</u>	<u>65,000</u>	<u>-</u>	<u>40,000</u>
Net cash provided (used) by noncapital financing activities	(38,923)	78,923	-	40,000
Cash flows from investing activities				
Changes in certificates of deposit	(50,540)	-	(9,945)	(60,485)
Interest income	<u>836</u>	<u>-</u>	<u>212</u>	<u>1,048</u>
Net cash flows provided (used) by investing activities	<u>(49,704)</u>	<u>-</u>	<u>(9,733)</u>	<u>(59,437)</u>
Net increase (decrease) in cash and cash equivalents	(28,335)	(5,590)	8,160	(25,765)
Cash and cash equivalents - January 1	<u>63,720</u>	<u>5,590</u>	<u>16,169</u>	<u>85,479</u>
Cash and cash equivalents - December 31	<u>\$ 35,385</u>	<u>\$ -</u>	<u>\$ 24,329</u>	<u>\$ 59,714</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities				
Income (loss) from operations	<u>\$ 60,292</u>	<u>\$ (84,513)</u>	<u>\$ 17,893</u>	<u>\$ (6,328)</u>
Net cash provided (used) by operating activities	<u>\$ 60,292</u>	<u>\$ (84,513)</u>	<u>\$ 17,893</u>	<u>\$ (6,328)</u>

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Glen Ullin adopted a Home Rule Charter in 2006. The financial statements of the City have been prepared on a modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the City's financial statements include all accounts of the City's operations. The criteria for including organizations as component units within the City's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the City as a reporting entity and the City is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

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

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

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has presented the following major governmental funds:

General Fund: The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

City Share Fund: This fund accounts for the taxes levied for City taxes and the uses of such funds.

City Sales Tax Fund: This fund accounts for City sales tax collections which are used for various purposes.

2017 South Avenue Project: This fund accounts for construction activity for the South Avenue project.

2018 Phase I RD Project: This fund accounts for the construction activity for the Phase I RD project.

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 investments earnings, result from nonexchange transactions or ancillary activities. The City has the following major proprietary funds:

Water Fund: This fund is used to account for the provision of water services to the residents of the City. Activities of the fund include employees' salaries and benefits, and operations and maintenance. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Sewer Fund: This fund is used to account for the provisions of sewer services to the residents of the City. Activities of the fund include employees' salaries and benefits, and operations and maintenance. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The City follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities.

The government-wide statements are reported using the economic resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the modified accrual basis of accounting, revenues are recognized when earned, except for enterprise fund charges for services which are recognized when received, and expenses are recognized at the time the liability is incurred. Also, because the City has not capitalized fixed assets, purchases of capital/fixed assets are expensed and no depreciation is recorded.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

The proprietary funds financial statements are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position. Under the modified accrual basis of accounting used by the City, charges for services are recorded as revenue when the amounts are received rather than when the revenue is earned. Purchases of capital assets are expensed.

D. Deposits

In accordance with North Dakota statutes, the City maintains deposits at depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured and 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.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

At December 31, 2017, the City's carrying amount of deposits was \$1,089,277 and the bank balance was \$1,094,307. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$567,597 was covered by Federal Depository Insurance and \$526,710 was covered by pledged securities held by the pledging financial institutions' agency not in the City's name, in CDARS accounts and in an ICS money market account. During the year, the board reviewed the pledge of securities semi-annually as required by state law.

Credit Risk: The City may invest idle funds as authorized in North Dakota Statutes, as follows:

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

Concentration of credit risk: The City does not have a limit on the amount the City may invest in any one issuer.

E. Capital Assets

The City has not recorded capital assets and depreciated such assets based on the estimated useful lives. This is a departure from the modified accrual basis of accounting. An accurate accounting of historical costs was not available to record the capital assets and accumulated depreciation.

F. Compensated Absences

Full-time, permanent employees receive vacation and sick leave benefits each year in amounts that vary depending on tenure with the City. Employees are entitled to their vacation leave upon termination. The maximum number of vacation hours an employee may carryover at December 31 each year is 240. Sick leave is not paid upon termination. As of December 31, 2017, the City did not have any compensated absences payable.

G. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. The City does not record encumbrances.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures. For the year ended December 31, 2017, the City had two outstanding loans.

I. Interfund Transactions

In the governmental and proprietary 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.

J. Fund Balance Classifications

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

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

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

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

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

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

When both restricted and unrestricted resources are available for use, the City's preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

K. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city council or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Deferred Inflows of Resources

Deferred inflows of resources in the fund financial statements consists of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposit and savings accounts and highly liquid investments with a maturity of three months or less.

Investments consist of certificates of deposit and CDARS carried at cost with terms of nine to forty-eight months and interest rates of 0.60 to 0.75 percent in 2017.

NOTE 3 TAXES RECEIVABLE

Taxes receivable consist of delinquent uncollected taxes at December 31.

Property tax revenue is recognized in compliance with National Council on Government Accounting (NCGA) Interpretation 3 "Revenue Recognition-Property Taxes." This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within this time period, taxes receivable are recorded as deferred revenue.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and usually remitted monthly to the City. Property taxes are limited by state laws. All City tax levies are in compliance with state laws.

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

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 4 DUE FROM COUNTY TREASURER

The amount of \$29,617 due from county treasurer consists of the cash on hand at the county for taxes collected but not remitted to the City at December 31.

NOTE 5 PENSION PLAN

The City has a simplified employee pension plan (SEP - IRA) with the Equitable Financial Company for qualified employees. The City contributes 4% of gross wages. In 2017, the employer contributions were \$2,622. The City is only responsible for current contributions.

NOTE 6 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, the City was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating a common risk management and insurance program for the state and over 2,000 political subdivisions. All members paid an additional charge the first year they joined to help capitalize the NDIRF. In 1991 and 1992 the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to the City. The City pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence. There have been no losses that exceeded the coverage in the last three years.

The City continues to carry commercial insurance for all other risks of loss, including North Dakota Fire and Tornado fund, state bonding, workers' compensation and employee health and accident insurance.

NOTE 7 INTERFUND TRANSFERS

At December 31, 2017, transfers in and transfers out totaled \$80,064. Below is a summary of the transfers in and transfers out.

	Transfer In	Transfer Out	Purpose of Transfer
Governmental Funds			
General Fund	\$ -	\$ 15,064	Durapatcher Loan Payment & Purchase of 2005 Ford Truck
Highway Fund	15,064	-	Durapatcher Loan Payment & Purchase of 2005 Ford Truck
City Sales Tax Fund	-	40,000	2016 Railroad Crossing Project
Enterprise Funds			
Water Fund	-	25,000	2016 Railroad Crossing Project
Sewer Fund	65,000	-	2016 Railroad Crossing Project
Total	<u>\$ 80,064</u>	<u>\$ 80,064</u>	

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 8 LONG-TERM DEBT

Following is a summary of long-term debt activity for the year ended December 31, 2017:

	Balance			Balance	Due Within
<u>Governmental Activities:</u>	<u>1/1/2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/2017</u>	<u>One Year</u>
Loans Payable	\$ -	\$ 1,043,940	\$ 2,537	\$ 1,041,403	\$ 44,355

Outstanding debt at December 31, 2017 consists of the following issues:

\$1,017,000 Loan dated October 17, 2017 for construction on the South Avenue project, due in semin-annual installments of \$31,645 which includes interest at 2.00% through May 1, 2037. \$ 1,017,000

\$26,940 Loan dated June 20, 2017 for a Durapatcher, due in semi-annual installments of \$3,064 which includes interest at 4.00% through December 20, 2022. 24,403

TOTAL \$ 1,041,403

Future payments required on long-term debt at December 31, 2017 are as follows:

Year Ending			
<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 44,355	\$ 21,998	\$ 66,353
2019	49,286	20,130	69,416
2020	50,385	19,031	69,416
2021	51,514	17,902	69,416
2022	52,669	16,747	69,416
2023-2027	248,086	68,359	316,445
2028-2032	274,041	42,404	316,445
2033-2037	271,067	13,733	284,800
TOTAL	<u>\$ 1,041,403</u>	<u>\$ 220,304</u>	<u>\$ 1,261,707</u>

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 9 FUND BALANCES

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

	General Fund	City Share Fund	City Sales Tax Fund	Other Governmental Funds	Total
Restricted					
Highway	\$ -	\$ -	\$ -	\$ 6,625	\$ 6,625
City Share	-	130,999	-	-	130,999
City Sales Tax	-	-	371,168	20,503	391,671
Emergency Fund	-	-	-	13,602	13,602
Job Development	-	-	-	8,167	8,167
Library	-	-	-	7,745	7,745
Assigned					
Transportation	-	-	-	96,501	96,501
City Lodging & Restaurant Tax	-	-	-	21,331	21,331
City Auditorium Building	-	-	-	2,869	2,869
Unassigned	135,903	-	-	-	135,903
	<u>\$ 135,903</u>	<u>\$ 130,999</u>	<u>\$ 371,168</u>	<u>\$ 177,343</u>	<u>\$ 815,413</u>

NOTE 10 RELATED PARTY TRANSACTIONS

Doug Martwick serves on the City Council and is also employed with Northern Improvement, which has done street repairs for the City.

Gary Glasser serves on the City Council and is the owner's son of Glasser Excavating, which does water repairs and other miscellaneous repairs for the City.

NOTE 11 SUBSEQUENT EVENTS

In 2017, the City entered into a loan through the Bank of North Dakota in the final amount of \$1,282,000 for the 2017 South Avenue Street and Utility Improvement project. Morton County also contributed \$875,000 to this project. This project involves street replacement, including new driveways, sidewalk, fire hydrants and street lighting. Final project cost totaled approximately \$2,205,000 and was completed in May 2018. Repayment of the loan will be through special assessments.

The City has also entered into an agreement for a loan with USDA in the amount of \$2,677,000 for Phase 1 of a Major Water, Sewer, Storm Sewer Renovation Project. USDA will also provide \$2,223,000 of grant funding with this project and the City will be obligated to contribute an additional \$100,000. This project began in May 2018 and has not been fully completed. The full amount of loan funds has been drawn and approximately \$2,110,000 of the grant funds have been received. Repayment of this loan will also be done utilizing special assessments.

The City also had an additional 2018 street paving project with a total cost of approximately \$427,000. The City contribution for this project is \$257,000 with additional loan funding of \$170,000 from Rural Development Finance Corporation. Repayment of this loan will be from the city sales tax fund.

***REQUIRED
SUPPLEMENTARY INFORMATION***

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 General Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 108,400	\$ 108,400	\$ 123,796	\$ 15,396
Licenses, Permits, and Fees	4,125	4,125	3,396	(729)
Intergovernmental	47,000	47,000	45,116	(1,884)
Charges for Services	5,890	5,890	6,315	425
Fines	150	150	40	(110)
Earnings on Investments	150	150	3,419	3,269
Miscellaneous	<u>3,800</u>	<u>3,800</u>	<u>6,425</u>	<u>2,625</u>
TOTAL REVENUES	<u>169,515</u>	<u>169,515</u>	<u>188,507</u>	<u>18,992</u>
EXPENDITURES				
Current:				
General Government	125,525	125,441	90,915	34,526
Public Safety	<u>43,600</u>	<u>43,600</u>	<u>40,920</u>	<u>2,680</u>
TOTAL EXPENDITURES	<u>169,125</u>	<u>169,041</u>	<u>131,835</u>	<u>37,206</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	390	474	56,672	56,198
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>(38,000)</u>	<u>(38,000)</u>	<u>(15,064)</u>	<u>22,936</u>
NET CHANGE IN FUND BALANCES	(37,610)	(37,526)	41,608	79,134
Fund Balances - January 1, 2017	<u>94,295</u>	<u>94,295</u>	<u>94,295</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2017	<u>\$ 56,685</u>	<u>\$ 56,769</u>	<u>\$ 135,903</u>	<u>\$ 79,134</u>

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 City Share Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 9,462	\$ 9,462	\$ 9,668	\$ 206
Earnings on Investments	-	-	2,328	2,328
TOTAL REVENUES	9,462	9,462	11,996	2,534
EXPENDITURES				
Current:				
Public Works	126,000	126,000	-	126,000
TOTAL EXPENDITURES	126,000	126,000	-	126,000
NET CHANGE IN FUND BALANCES	(116,538)	(116,538)	11,996	128,534
Fund Balances - January 1, 2017	119,003	119,003	119,003	-
FUND BALANCES - DECEMBER 31, 2017	<u>\$ 2,465</u>	<u>\$ 2,465</u>	<u>\$ 130,999</u>	<u>\$ 128,534</u>

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 City Sales Tax Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 52,000	\$ 52,000	\$ 43,829	\$ (8,171)
Earnings on Investments	<u>100</u>	<u>100</u>	<u>692</u>	<u>592</u>
TOTAL REVENUES	52,100	52,100	44,521	(7,579)
EXPENDITURES				
Current:				
General Government	<u>470,000</u>	<u>470,000</u>	<u>-</u>	<u>470,000</u>
TOTAL EXPENDITURES	<u>470,000</u>	<u>470,000</u>	<u>-</u>	<u>470,000</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(417,900)	(417,900)	44,521	462,421
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>(40,000)</u>
NET CHANGE IN FUND BALANCES	(417,900)	(417,900)	4,521	422,421
Fund Balances - January 1, 2017	<u>366,647</u>	<u>366,647</u>	<u>366,647</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2017	<u>\$ (51,253)</u>	<u>\$ (51,253)</u>	<u>\$ 371,168</u>	<u>\$ 422,421</u>

City of Glen Ullin
Notes to Required Supplementary Information
December 31, 2017

NOTE 1 BUDGETS

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

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 City holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 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 City may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the governing board and the approval must be noted in the official proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

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 Glen Ullin
Glen Ullin, 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 Glen Ullin, 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 September 27, 2019. We have issued an adverse opinion on the governmental, business-type, and major and non-major proprietary funds due to the omission of capital assets and related accumulated depreciation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Glen Ullin, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Glen Ullin's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Glen Ullin'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 were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-001 through 2017-003 described in the accompanying schedule of findings 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 deficiency 2017-004 described in the accompanying schedule of findings to be a significant deficiency.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Glen Ullin'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 Glen Ullin, North Dakota's Response to Findings

The City of Glen Ullin's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City of Glen Ullin'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 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.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
September 27, 2019

City of Glen Ullin
Schedule of Findings
For the Year Ended December 31, 2017

Finding 2017-001: Segregation of Duties

Condition – The city has lack of segregation of duties in certain areas due to a limited staff.

Criteria – A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles or has access to a transaction from its inception to its completion.

Cause – There are limited individuals to perform tasks due to the small size of the entity and it is not economically feasible to further segregate duties.

Effect – Inadequate segregation of duties could adversely affect the entity's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation – This is not unusual in organizations of your size and under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations. Board members should periodically review documentation supporting individual transactions.

Management's Response – The City is aware of the condition and will add controls where feasible.

Finding 2017-002: Capital Asset Records

Condition – The City of Glen Ullin does not maintain complete capital asset records.

Criteria – Under the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, require the financial statements include the capital assets and the related depreciation.

Cause – The City of Glen Ullin has no system in place to maintain capital assets records and related depreciation.

Effect – The omission of the capital assets from the financial statements results in an incomplete presentation of the City of Glen Ullin's financial statements and an adverse opinion on the governmental activities, business-type activities, and proprietary funds.

Recommendation – We recommend the City of Glen Ullin establish complete capital asset records and determine the accumulated depreciation.

Management Response – We will work on a schedule of all assets and related depreciation to be entered into our accountant's depreciation software.

City of Glen Ullin
Schedule of Findings
For the Year Ended December 31, 2017

Finding 2017-003: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the City’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – The City has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the City’s auditors is not unusual in an entity of this size. The Council should continue to review the financial statements and related disclosures.

Management Response – The City Council will be made aware that someone needs to review the audit report each year to make sure the financial statements appear to be correct.

Finding 2017-004: Journal Entries

Condition – Journal entries were required to record taxes receivable, deferred revenue, and due from county on the modified accrual basis of accounting. Entries were also required to adjust posting errors.

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cause – The City did not post the accrual adjustments.

Effect – The financial statements were not properly adjusted for the modified accrual basis of accounting.

Recommendation – All taxes receivable and due from county activity should be recorded in the financial statements to ensure the general ledger includes all activity that occurred during the fiscal year to allow for accurate presentation of the financial statements. All accounts should be reviewed monthly to ensure entries are properly classified.

Management Response – We will work on preparing these entries and provide the information to the auditors to record in our accounting records.