

**CITY OF FAIRMOUNT
Fairmount, North Dakota**

**AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2018**

CITY OF FAIRMOUNT
Fairmount, North Dakota

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December 31, 2018

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CITY OF FAIRMOUNT
Fairmount, North Dakota

OFFICIAL DIRECTORY
December 31, 2018

Jon Nelk	Mayor
Rena Swanson	Council Member
Jen Kleveland	Council Member
Leo Taylor	Council Member
Chuck Campbell	Council Member
Bev Steffens	City Auditor



INDEPENDENT AUDITOR'S REPORT

City Council
City of Fairmount
Fairmount, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

City of Fairmount's 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, business-type activities, and each major fund, of the City of Fairmount, as of December 31, 2018 and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

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

Other Information

The official directory has 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 September 11, 2019 on our consideration of the City of Fairmount'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 Fairmount's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, ND
September 11, 2019

CITY OF FAIRMOUNT
Fairmount, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2018

The Management's Discussion and Analysis (MD&A) of the City of Fairmount's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2018, with comparative data for the fiscal year ended December 31, 2017. The intent of the MD&A is to look at the City's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

Financial Highlights

Key financial highlights for the year ended December 31, 2018 are as follows:

Collections for charges for services, taxes, and grants have remained similar to prior years. The City continues to work on a tree grant for the removal of several trees and planting approximately 70 new trees. The garage used for recycling received exterior updates and a new circulating pump was installed to alleviate problems with the water tower freezing.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of the following three components:

1. Government-wide financial statements provide information for the City as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund statements.

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Fairmount's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information on how the City's net position changed during the most recent fiscal year. This statement is presented using the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. Both the statement of net position and the statement of activities present information as follows:

1. Governmental activities - this includes most of the City's basic services, which are primarily supported by property and sales taxes, interest income, user fees, and intergovernmental revenues.
2. Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Fairmount, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF FAIRMOUNT
Management's Discussion and Analysis – Continued

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified cash basis of accounting which focuses on available expendable resources. This allows the reader to evaluate the City's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between the governmental funds and the government-wide financial statements.

The City maintains two individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balance for the general fund and the street fund which are major funds.

The basic governmental fund financial statements can be found on pages 11-14 of this report.

The City adopts an annual budget for the general and street funds. Budgetary comparison statements have been provided to demonstrate compliance. The budgetary comparison schedules can be found on pages 27-28 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report activities that charge for services it provides to outside customers. The enterprise funds are presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its water, sewer and garbage operations. Proprietary funds statements provide the same type of information as the government-wide statements, only in more detail. The water, sewer and garbage funds are considered major funds.

The basic proprietary fund statements can be found on pages 15-17 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-26 of this report.

Financial Analysis of the City as a Whole

Table I provides a summary of the City's net position as of December 31, 2018 and 2017. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fairmount, net position increased by \$124,308 for the year ending December 31, 2018.

The City's net position at December 31, 2018 is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net positions are available to meet the City's ongoing obligations.

CITY OF FAIRMOUNT
Management's Discussion and Analysis – Continued

Table I
Net Position
December 31,

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current Assets	\$ 369,964	\$ 289,520	\$ 378,718	\$ 387,350	\$ 748,682	\$ 676,870
Capital Assets, net of depreciation	220,910	236,344	1,393,299	1,425,369	1,614,209	1,661,713
Total Assets	590,874	525,864	1,772,017	1,812,719	2,362,891	2,338,583
LIABILITIES						
Current Liabilities	-	-	95,000	100,000	95,000	100,000
Long-term Liabilities	-	-	466,000	561,000	466,000	561,000
Total Liabilities	-	-	561,000	661,000	561,000	661,000
NET POSITION						
Net Position	220,910	236,344	832,299	764,369	1,053,209	1,000,713
Restricted	-	-	226,034	230,081	226,034	230,081
Unrestricted	369,964	289,520	152,684	157,269	522,648	446,789
Total Net Position	\$ 590,874	\$ 525,864	\$ 1,211,017	\$ 1,151,719	\$ 1,801,891	\$ 1,677,583

Table II shows the changes in net position for the years ended December 31, 2018 and 2017.

Table II
Changes in Net Position
Years Ended December 31,

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues						
Charges for Services	\$ 1,560	\$ 1,545	\$ 144,508	\$ 149,256	\$ 146,068	\$ 150,801
Operating Grants and Contributions	123,812	126,998	-	-	123,812	126,998
General Revenues						
Taxes	77,804	75,593	58,179	63,167	135,983	138,760
Interest and Miscellaneous Earnings	7,058	6,810	988	663	8,046	7,473
Total Revenues	\$ 210,234	\$ 210,946	\$ 203,675	\$ 213,086	\$ 413,909	\$ 424,032
EXPENSES						
General Government	\$ 102,882	\$ 83,576	\$ -	\$ -	\$ 102,882	\$ 83,576
Public Safety	36,283	38,818	-	-	36,283	38,818
Special Assessments	6,059	6,368	-	-	6,059	6,368
Water and Sewer	-	-	115,817	124,237	115,817	124,237
Garbage	-	-	28,560	28,560	28,560	28,560
Total Expenses	145,224	128,762	144,377	152,797	289,601	281,559
Change in Net Position	\$ 65,010	\$ 82,184	\$ 59,298	\$ 60,289	\$ 124,308	\$ 142,473

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current year, the City's governmental funds reported combined ending fund balances of \$369,964.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$468,863. The fund balance of the City's general fund increased by \$76,466.

CITY OF FAIRMOUNT
Management's Discussion and Analysis – Continued

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds was \$152,684.

General Fund Budgetary Highlights

For the year ending December 31, 2018, general fund revenues were more than budgetary estimates by \$153,679 and expenditures were more than budgetary estimates by \$16,398.

Additional information on the City of Fairmount's budget can be found in Note 10 of the audited financial statements that follow this analysis.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2018, amounts to \$1,614,209 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and infrastructure. For the current year, capital assets decreased by \$47,504. Major capital asset events during the current fiscal year included a water tower improvements and hydrants.

Table III
Capital Assets
December 31,

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
	Land	\$ 25,000	\$ 25,000	\$ 7,000	\$ 7,000	\$ 32,000
Buildings and Improvements	162,988	172,211	-	-	162,988	172,211
Equipment	32,922	39,133	-	-	32,922	39,133
Infrastructure	-	-	1,386,299	1,418,369	1,386,299	1,418,369
Total Capital Assets	\$ 220,910	\$ 236,344	\$ 1,393,299	\$ 1,425,369	\$ 1,614,209	\$ 1,661,713

Additional information can be found in Note 5 of the financial statements.

Debt Administration

As of December 31, 2018 the City had \$561,000 of total debt, a decrease of \$100,000 from the previous year.

Table IV
Outstanding Debt
December 31,

	Total Outstanding		Due Within One Year	
	2018	2017	2018	2017
	Bonds Payable	\$ 561,000	\$ 661,000	\$ 95,000
Total	\$ 561,000	\$ 661,000	\$ 95,000	\$ 100,000

For additional information regarding the outstanding debt, readers are referred to Note 8 of the audited financial statements that follow this analysis.

CITY OF FAIRMOUNT
Management's Discussion and Analysis – Continued

For the Future

The City anticipates replacing the roof on City Hall and the removal of abandoned properties within the City.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Fairmount's finances and to show the City's accountability for the money it receives to the citizens of Fairmount. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact the City of Fairmount at 104 1st Street North Fairmount, North Dakota 58030.

CITY OF FAIRMOUNT
Fairmount, North Dakota

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 191,788	\$ 330,860	\$ 522,648
Restricted Cash	-	226,034	226,034
Internal Balances	178,176	(178,176)	-
Total Current Assets	<u>369,964</u>	<u>378,718</u>	<u>748,682</u>
Capital Assets			
Non-depreciable			
Land	25,000	7,000	32,000
Depreciable, net of accumulated depreciation			
Buildings and Improvements	162,988	-	162,988
Equipment	32,922	-	32,922
Infrastructure	-	1,386,299	1,386,299
Total Capital Assets	<u>220,910</u>	<u>1,393,299</u>	<u>1,614,209</u>
Total Assets	<u>590,874</u>	<u>1,772,017</u>	<u>2,362,891</u>
LIABILITIES			
Current Liabilities			
Current Portion of Long-term Debt			
Bonds Payable	-	95,000	95,000
Total Current Liabilities	-	95,000	95,000
Due After One Year			
Bonds Payable	-	466,000	466,000
Total Long-term Liabilities	<u>-</u>	<u>466,000</u>	<u>466,000</u>
Total Liabilities	-	561,000	561,000
NET POSITION			
Net Investment in Capital Assets	220,910	832,299	1,053,209
Restricted	-	226,034	226,034
Unrestricted	369,964	152,684	522,648
Total Net Position	<u>\$ 590,874</u>	<u>\$ 1,211,017</u>	<u>\$ 1,801,891</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
General Government	\$ 102,882	\$ 1,560	\$ 90,493	\$ (10,829)	\$ -	\$ (10,829)
Public Safety	36,283	-	33,319	(2,964)	-	(2,964)
Special Assessments	6,059	-	-	(6,059)	-	(6,059)
Total Governmental Activities	145,224	1,560	123,812	(19,852)	-	(19,852)
Business-type Activities						
Water and Sewer	115,817	118,856	-	-	3,039	3,039
Garbage	28,560	25,652	-	-	(2,908)	(2,908)
Total Business-type Activities	144,377	144,508	-	-	131	131
Total Primary Government	\$ 289,601	\$ 146,068	\$ 123,812	(19,852)	131	(19,721)
General Revenues						
Taxes				76,494	-	76,494
Taxes Levied for General Purposes				1,310	-	1,310
Taxes Levied for Special Revenues				-	58,179	58,179
Taxes Levied for Special Assessments				2,196	988	3,184
Gain on Sale of Assets				4,862	-	4,862
Total General Revenues				84,862	59,167	144,029
Change in Net Position				65,010	59,298	124,308
Net Position, Beginning of Year				525,864	1,151,719	1,677,583
Net Position, End of Year				\$ 590,874	\$ 1,211,017	\$ 1,801,891

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

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

	Major Funds		Total Governmental Funds
	General Fund	Street Fund	
ASSETS			
Cash and Cash Equivalents	\$ 185,664	\$ 6,124	\$ 191,788
Due from Other Funds	283,199	-	283,199
Total Assets	468,863	6,124	474,987
LIABILITIES			
Due to Other Funds	-	105,023	105,023
Total Liabilities	-	105,023	105,023
FUND BALANCE (DEFICIT)			
Unassigned (Deficit)	468,863	(98,899)	369,964
Total Fund Balance (Deficit)	468,863	(98,899)	369,964
Total Liabilities and Fund Balance	\$ 468,863	\$ 6,124	\$ 474,987

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

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

Total Fund Balance - Governmental Funds		\$	369,964
Total net position reported for government activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.			
Cost of Capital Assets	1,121,485		
Less Accumulated Depreciation	(900,575)		
Net Capital Assets	<u>220,910</u>		<u>220,910</u>
Net Assets of Governmental Activities in the Statement of Net Assets		\$	<u>590,874</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**
Year Ended December 31, 2018

	Major Funds		Total Governmental Funds
	General Fund	Street Fund	
REVENUES			
Taxes	\$ 138,910	\$ 22,142	\$ 161,052
Licenses, Permits, and Fees	1,560	-	1,560
State Sources	37,701	2,863	40,564
Interest Income	2,196	-	2,196
Miscellaneous Income	4,862	-	4,862
Total Revenues	<u>185,229</u>	<u>25,005</u>	<u>210,234</u>
EXPENDITURES			
Current			
General Government	102,704	-	102,704
Public Safety	-	21,027	21,027
Debt Service			
Special Assessments	6,059	-	6,059
Total Expenditures	<u>108,763</u>	<u>21,027</u>	<u>129,790</u>
Excess of Revenues over Expenditures	76,466	3,978	80,444
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>392,397</u>	<u>(102,877)</u>	<u>289,520</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 468,863</u>	<u>\$ (98,899)</u>	<u>\$ 369,964</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**
Year Ended December 31, 2018

Net Change in Fund Balance - Total Governmental Funds \$ 80,444

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year

(15,434)

Change in Net Assets of Governmental Activities

\$ 65,010

CITY OF FAIRMOUNT
Fairmount, North Dakota

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

	<u>Business-type Activities - Proprietary Funds</u>		
	<u>Water and Sewer</u>	<u>Garbage</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 296,911	\$ 33,949	\$ 330,860
Restricted Cash	226,034	-	226,034
Total Current Assets	522,945	33,949	556,894
Capital Assets			
Non-Depreciable			
Land	7,000	-	7,000
Depreciable, net of accumulated depreciation			
Infrastructure	1,386,299	-	1,386,299
Total Capital Assets	1,393,299	-	1,393,299
Total Assets	1,916,244	33,949	1,950,193
LIABILITIES			
Current Liabilities			
Due to Other Funds	178,176	-	178,176
Bonds Payable	95,000	-	95,000
Total Current Liabilities	273,176	-	273,176
Long-term Liabilities			
Bonds Payable	466,000	-	466,000
Total Long-term Liabilities	466,000	-	466,000
Total Liabilities	739,176	-	739,176
NET POSITION			
Net Investment in Capital Assets	832,299	-	832,299
Restricted	226,034	-	226,034
Unrestricted	118,735	33,949	152,684
Total Net Position	\$ 1,177,068	\$ 33,949	\$ 1,211,017

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2018

	Business-type Activities - Proprietary Funds		
	Water and Sewer	Garbage	Total
OPERATING REVENUES			
Charges for Services	\$ 118,856	\$ 25,652	\$ 144,508
Total Revenues	118,856	25,652	144,508
OPERATING EXPENSES			
Utilities	3,935	-	3,935
Chemical and Testing Fees	6,281	-	6,281
Contracted Services	-	28,560	28,560
Salaries	15,520	-	15,520
Repairs and Maintenance	7,667	-	7,667
Depreciation	65,824	-	65,824
Supplies	859	-	859
Miscellaneous	1,379	-	1,379
Total Operating Expenses	101,465	28,560	130,025
OPERATING INCOME (LOSS)	17,391	(2,908)	14,483
NONOPERATING REVENUES (EXPENSES)			
Interest and Fiscal Fees	(14,352)	-	(14,352)
Special Assessments	58,179	-	58,179
Interest Income	988	-	988
Total Nonoperating Revenues (Expenses)	44,815	-	44,815
CHANGE IN NET POSITION	62,206	(2,908)	59,298
NET POSITION, BEGINNING OF YEAR	1,114,862	36,857	1,151,719
NET POSITION, END OF YEAR	\$ 1,177,068	\$ 33,949	\$ 1,211,017

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
Year Ended December 31, 2018

	Business-type Activities - Proprietary Funds		
	Water and Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 118,856	\$ 25,652	\$ 144,508
Payments to Suppliers	(20,121)	(28,560)	(48,681)
Payments to Employees	(15,520)	-	(15,520)
Net Cash Provided by (Used By) Operating Activities	83,215	(2,908)	80,307
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES			
Special Assessment Receipts	58,179	-	58,179
Net Cash Provided by (Used By) Noncapital Financing Activities	58,179	-	58,179
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest and Fiscal Fees	(14,352)	-	(14,352)
Principal Paid on Capital Debt	(100,000)	-	(100,000)
Acquisition of Capital Assets	(33,754)	-	(33,754)
Net Cash Provided by (Used By) Capital and Related Financing Activities	(148,106)	-	(148,106)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Income	988	-	988
Net Cash Provided by (Used By) Investing Activities	988	-	988
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,724)	(2,908)	(8,632)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	528,669	36,857	565,526
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 522,945	\$ 33,949	\$ 556,894
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used By) Operating Activities:			
Operating Income (Loss)	\$ 17,391	\$ (2,908)	\$ 14,483
Depreciation Expense	65,824	-	65,824
Net Cash Provided by (Used By) Operating Activities	\$ 83,215	\$ (2,908)	\$ 80,307

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fairmount (the City) operates under a Home Rule Charter. The accounting policy of the City is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

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

Fund financial statements - The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

The City reports the following major governmental funds:

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

Street Fund - This fund accounts for resources used for street repair and maintenance.

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

The City reports the following major enterprise funds:

Water and Sewer Fund - This fund accounts for the activity of the water and sewer development. The department operates the water distribution system, sewage pumping stations and collection systems in the City.

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

Measurement Focus and Basis of Accounting

Government-wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined under the "Basis of Accounting."

Government 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:

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net 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.

The government-wide statement of net position, 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 depreciation 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.

Cash and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the statement of cash flows consists of highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets include land, buildings, infrastructure and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. 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 fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

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

<u>Assets</u>	<u>Years</u>
Buildings and Infrastructure	20-50
Vehicles, Machinery, and Equipment	5-15

Long-term Obligations

In the government-wide financial statements and proprietary fund statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as costs in the current period under provisions of GASB 65.

Fund Balances and Net Position

GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restriction or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy

It is the policy of the City of Fairmount to spend restricted resources first, followed by unrestricted resources. It is also the policy of the city council to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions

GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints and the purpose for which resources can be used:

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources 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.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A 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, the City Council. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By city council action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the city council and the city auditor.	By city council, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

The City had only unassigned fund balances reported at December 31, 2018.

Net Position

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

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them. The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position shown in the statement of net position are due to restricted tax levies and restricted Federal and State grants/reimbursements. Additionally, restricted net position is shown in the statement of net position by primary function as fund balances are shown in the balance sheet and are restricted for debt, maintenance and replacement expenses.

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

Interfund Transactions

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the City maintains deposits at the depository banks designed 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 or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

CITY OF FAIRMOUNT
Notes to Financial Statements – 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, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At December 31, 2018, the City's carrying amount of deposits was \$748,682 and the bank balances were \$749,431. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk

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

- 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.
- 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.
- Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- Obligations of the state.

As of December 31, 2018, the City held no certificates of deposit.

Interest Rate Risk

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

Concentration of Credit Risk

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

NOTE 3 – RESTRICTED CASH

Restricted cash in the Enterprise Funds consists of one checking account and three money market savings accounts. This cash is restricted by the City Council for debt, maintenance and replacement expenses.

NOTE 4 – PROPERTY TAXES

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material tax collections are distributed after the end of each month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes.

The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

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

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Total Capital Assets, not being depreciated	25,000	-	-	25,000
Capital Assets, being depreciated				
Buildings and Improvements	993,991	-	-	993,991
Equipment	102,494	-	-	102,494
Total Capital Assets, being depreciated	1,096,485	-	-	1,096,485
Less Accumulated Depreciation for:				
Buildings and Improvements	821,780	9,223	-	831,003
Equipment	63,361	6,211	-	69,572
Total Accumulated Depreciation	885,141	15,434	-	900,575
Total Capital Assets Being Depreciated, net	211,344	(15,434)	-	195,910
Governmental Activities Capital Assets, net	<u>\$ 236,344</u>	<u>\$ (15,434)</u>	<u>\$ -</u>	<u>\$ 220,910</u>

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

Governmental Activities:	
General Government	\$ 178
Public Safety	15,256
Total Depreciation Expense - Governmental Activities	<u>\$ 15,434</u>

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Business-type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Total Capital Assets, not being depreciated	7,000	-	-	7,000
Capital Assets, being depreciated				
Infrastructure	2,645,100	33,754	-	2,678,854
Total Capital Assets, being depreciated	2,645,100	33,754	-	2,678,854
Less Accumulated Depreciation for:				
Infrastructure	1,226,731	65,824	-	1,292,555
Total Accumulated Depreciation	1,226,731	65,824	-	1,292,555
Total Capital Assets Being Depreciated, net	1,418,369	(32,070)	-	1,386,299
Business-type Activities Capital Assets, net	<u>\$ 1,425,369</u>	<u>\$ (32,070)</u>	<u>\$ -</u>	<u>\$ 1,393,299</u>

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

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

Business-type Activities:	
Water and Sewer	\$ 65,824
Total Depreciation Expense - Business-type Activities	<u>\$ 65,824</u>

NOTE 6 – DUE TO/FROM OTHER FUNDS

The composition of due to and due from other funds as of December 31, 2018 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 283,199	\$ -
Street Fund	-	105,023
Water and Sewer	-	178,176
Totals	<u>\$ 283,199</u>	<u>\$ 283,199</u>

The street fund “Due To” represents the amount of negative cash in that fund. The water and sewer fund “Due To” represents the amount that has been paid by the general fund over the years on its behalf.

NOTE 7 – INDIVIDUAL FUND DEFICIT

The street fund was in a deficit position at December 31, 2018 due to operating losses.

NOTE 8 – LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities of the City:

	Long-term Liabilites at January 1, 2018	Increases	Decreases	Long-term Liabilites at December 31, 2018	Due Within One Year
Business-type Activities					
Bonds Payable	\$ 661,000	\$ -	\$ (100,000)	\$ 561,000	\$ 95,000
Total - Business-type Activities	<u>\$ 661,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 561,000</u>	<u>\$ 95,000</u>

Outstanding debt at December 31, 2018, are comprised of the following individual issues:

1. Refunding Improvement Bonds, Series 2013 - From an original issuance of \$950,000 at rates ranging from .50% to 3.00%, \$460,000 remains outstanding. The principal and interest are payable through May 1, 2027.
2. Water Revenue, Bond, Series 2014 - From an original issuance of \$121,759 at a rate of 2%, \$101,000 remains outstanding. The principal and interest are payable through September 1, 2034.

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

The debt service requirements are as follows:

\$950,000 Refunding Improvement Bonds of 2013
(Dated June 15, 2013, due serially to May 1, 2027)
(Interest paid semiannually on May 1st and November 1st)

Year	Rate	Principal	Interest	Payment
5/1/2019	1.25%	\$ 90,000	\$ 5,000	\$ 95,000
11/1/2019		-	4,213	4,213
5/1/2020	1.75%	100,000	4,213	104,213
11/1/2020		-	3,338	3,338
5/1/2021	1.75%	95,000	3,338	98,338
11/1/2021		-	2,269	2,269
5/1/2022	2.25%	95,000	2,269	97,269
11/1/2022		-	1,200	1,200
5/1/2023	2.25%	15,000	1,200	16,200
11/1/2023		-	975	975
5/1/2024 - 5/1/2027	3.00%	65,000	4,122	69,122
		<u>\$ 460,000</u>	<u>\$ 32,137</u>	<u>\$ 492,137</u>

Bonds maturing in 2021 and thereafter shall be subject to redemption and prepayment, at the option of the City, on May 1, 2020, and any date thereafter, in inverse order of maturities and by lot within any maturity, at par plus accrued interest.

Water Revenue Bond, Series 2014
(Dated August 24, 2014, due serially to September 1, 2034)
(Interest paid semiannually on March 1st and September 1st)

Year	Rate	Principal	Interest	Payment
3/1/2019	2.00%	\$ -	\$ 1,010	\$ 1,010
9/1/2019		5,000	1,010	6,010
3/1/2020	2.00%	-	960	960
9/1/2020		5,000	960	5,960
3/1/2021	2.00%	-	910	910
9/1/2021		6,000	910	6,910
3/1/2022	2.00%	-	850	850
9/1/2022		6,000	850	6,850
3/1/2023	2.00%	-	790	790
9/1/2023		6,000	790	6,790
3/1/2024 - 9/1/2034	2.00%	73,000	9,040	82,040
		<u>\$ 101,000</u>	<u>\$ 18,080</u>	<u>\$ 119,080</u>

The Series 2014 Bonds shall be subject to redemption and prepayment at the option of the City, with written consent of the North Dakota Public Finance Authority, in whole or in part and if in part, in the manner determined by the City, on any date, at par plus accrued interest to the redemption date.

NOTE 9 – RISK MANAGEMENT

The City of Fairmount is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

CITY OF FAIRMOUNT
Notes to Financial Statements – Continued

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (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 Fairmount pays an annual premium to NDIRF for its general liability, auto, and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile coverage and to \$100,040 for public assets (mobile equipment and portable property) coverage.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement 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 \$2,000,000 per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$222,000 for the City employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 10 – LEGAL COMPLIANCE - BUDGETS

The City's expenditures exceeded budgeted amounts for the current year. Additional expenditures related to a tree grant received during 2018 exceeded budgeted amounts.

NOTE 11 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through September 11, 2019, the date on which the financial statements were available to be issued.

CITY OF FAIRMOUNT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,000	\$ 1,000	\$ 138,910	\$ 137,910
Licenses, Permits, and Fees	1,850	1,850	1,560	(290)
State Sources	26,000	26,000	37,701	11,701
Interest Income	400	400	2,196	1,796
Miscellaneous Income	2,300	2,300	4,862	2,562
Total Revenues	31,550	31,550	185,229	153,679
EXPENDITURES				
Current				
General Government	92,365	92,365	102,704	(10,339)
Debt Service				
Special Assessments	-	-	6,059	(6,059)
Total Expenditures	92,365	92,365	108,763	(16,398)
Exces (Deficiency) of Revenues over Expenditures	(60,815)	(60,815)	76,466	137,281
FUND BALANCE, BEGINNING OF YEAR			392,397	
FUND BALANCE, END OF YEAR			<u>\$ 468,863</u>	

CITY OF FAIRMOUNT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE – STREET FUND – MODIFIED CASH BASIS
Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 16,000	\$ 16,000	\$ 22,142	\$ 6,142
State Sources	-	-	2,863	2,863
Total Revenues	16,000	16,000	25,005	9,005
EXPENDITURES				
Current				
Public Safety	43,800	43,800	21,027	22,773
Total Expenditures	43,800	43,800	21,027	22,773
Exces (Deficiency) of Revenues over Expenditures	(27,800)	(27,800)	3,978	31,778
FUND BALANCE (DEFICIT), BEGINNING OF YEAR			(102,877)	
FUND BALANCE (DEFICIT), END OF YEAR			\$ (98,899)	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2018

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The City Council adopts an annual budget on the modified cash basis of accounting for the general fund and the special revenue funds.

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

- The annual budget must be prepared, and City taxes must be levied on or before the 7th day of October of each year.
- The taxes levied must be certified to the county auditor by October 10th.
- The operating budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the City Auditor at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end

NOTE 2 – EXPENDITURES IN EXCESS OF BUDGET

Current year general fund expenditures were in excess of budgeted amounts.



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*

City Council
City of Fairmount
Fairmount, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Fairmount, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City of Fairmount's basic financial statements, and have issued our report thereon dated September 11, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2018-001 and 2018-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fairmount'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 these 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's Response to Findings

The City of Fairmount's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Fairmount's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Nadine Julson, LLC
Wahpeton, North Dakota
September 11, 2019

CITY OF FAIRMOUNT
Fairmount, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended December 31, 2018

2018-002 MATERIAL JOURNAL ENTRIES

Criteria

A good system of internal accounting control contemplates an adequate system for the preparation of the financial statements, including recording government wide journal entries in order to reconcile from the fund financials to the government wide financials and ensuring all general ledger accounts are properly reflected on a GAAP basis.

Condition

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited, including recording government wide journal entries. As auditors, we were requested to draft the financial statements, which include proposing government wide journal entries, and drafting the accompanying notes to the financial statements.

Effect

Inadequate controls over financial reporting of the City results in more than a remote likelihood that the City would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

There is no disagreement with the audit finding. The City is aware that there is a risk of having outside accountants prepare financial statements and note disclosures. The City will review obtaining additional education and resources to prepare the financial statements and note disclosures in the future.

Indication of Repeat Finding

This is a repeat of finding 2017-002 from the prior year.