

FINANCIAL STATEMENTS

CITY OF LARIMORE
Larimore, North Dakota

For the Year Ended

DECEMBER 31, 2018

Prepared By

MORTENSON & RYGH
Certified Public Accountants
PO Box 287
Park River, North Dakota 58270

CITY OF LARIMORE
Larimore, North Dakota

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December 31, 2018

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CITY OF LARIMORE
Larimore, North Dakota

List of Officials
December 31, 2018

Dean Elfman

Mayor

Dustin Barber

Council Member

Susan Christiansen

Council Member

Dave Garton

Council Member

Ron Swanson

Council Member

Adam Vonasek

Council Member

Roberta Huntley

Auditor

Joseph Quinn

Attorney

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Larimore
Larimore, North Dakota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 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 *Governmental 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.

CAVALIER

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PARK RIVER

1203 Park Street East
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(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Larimore, North Dakota, as of December 31, 2018, and the respective changes in financial position – modified cash basis, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of employer's share of net pension liability, schedule of employer's contributions to net pension liability, schedule of employer's share of net OPEB liability, and schedule of employer's contributions to net OPEB liability as listed in 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Larimore, North Dakota's financial statements as a whole. The *schedules of fund activity – modified cash basis* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 07, 2020, on our consideration of the City of Larimore, North Dakota'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* and should be considered in assessing the results of our audit.



Mortenson and Rygh
Certified Public Accountants
Park River, North Dakota

February 07, 2020

BASIC FINANCIAL STATEMENTS

CITY OF LARIMORE
Larimore, North Dakota

Statement of Net Position – Modified Cash Basis
December 31, 2018

| | Primary Government | | | Component Units | |
|--|--------------------|---------------|--------------|-----------------|-----------|
| | Governmental | Business-Type | Total | Airport | Library |
| | Activities | Activities | | | |
| ASSETS: | | | | | |
| CURRENT ASSETS | | | | | |
| Cash & Cash Equivalents | \$ 1,585,691 | \$ 2,098,436 | \$ 3,684,127 | \$ 31,223 | \$ 31,338 |
| Restricted Cash and Equivalents | - | 103,240 | 103,240 | - | - |
| Total Current Assets | 1,585,691 | 2,201,676 | 3,787,367 | 31,223 | 31,338 |
| CAPITAL ASSETS | | | | | |
| Capital Assets net of Accumulated Depreciation | 574,837 | 2,058,709 | 2,633,545 | 347,424 | - |
| Total Capital Assets | 574,837 | 2,058,709 | 2,633,545 | 347,424 | - |
| OTHER ASSETS | | | | | |
| Certificates of Deposit | - | 244,884 | 244,884 | - | - |
| Restricted Certificates of Deposit | - | 45,310 | 45,310 | - | - |
| Loans Receivable | 133,353 | - | 133,353 | - | - |
| Total Other Assets | 133,353 | 290,195 | 423,548 | - | - |
| Total Assets | \$ 2,293,881 | \$ 4,550,579 | \$ 6,844,459 | \$ 378,647 | \$ 31,338 |
| LIABILITIES AND FUND BALANCE: | | | | | |
| CURRENT LIABILITIES | | | | | |
| Current Maturity on Long Term Debt | \$ 17,981 | \$ 120,694 | \$ 138,674 | \$ - | \$ - |
| Total Current Liabilities | 17,981 | 120,694 | 138,674 | - | - |
| NON CURRENT LIABILITIES | | | | | |
| Bonds Payable | - | 890,547 | 890,547 | - | - |
| Capital Lease Payable | 36,561 | - | 36,561 | - | - |
| Less Amounts Due Within One Year | (17,981) | (120,694) | (138,674) | - | - |
| Total Non Current Liabilities | 18,581 | 769,853 | 788,434 | - | - |
| Total Liabilities | 36,561 | 890,547 | 927,108 | - | - |
| NET POSITION | | | | | |
| Net investment in capital assets | 538,275 | 1,168,162 | 1,706,437 | 347,424 | - |
| Restricted For: | | | | | |
| Debt service | - | 794,809 | 794,809 | - | - |
| Economic Development | 576,817 | - | 576,817 | - | - |
| Equipment Replacement | - | 229,701 | 229,701 | - | - |
| Infrastructure | 166,954 | - | 166,954 | - | - |
| Public Works/Streets | 343,933 | - | 343,933 | - | - |
| Special purpose | 1,614 | - | 1,614 | - | - |
| Unrestricted | 629,727 | 1,467,361 | 2,097,088 | 31,223 | 31,338 |
| Total Net Position | 2,257,319 | 3,660,032 | 5,917,351 | 378,647 | 31,338 |
| Total Liabilities & Net Position | \$ 2,293,881 | \$ 4,550,579 | \$ 6,844,459 | \$ 378,647 | \$ 31,338 |

CITY OF LARIMORE
Larimore, North Dakota

Statement of Activities – Modified Cash Basis
For The Year Ended December 31, 2018

| Functions/Programs: | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Change in Net Position | | | Component Units | |
|--|---------------------|----------------------|------------------------------------|---|--------------------------|---------------------|-------------------|------------------|
| | | Charges for Services | Operating Grants and Contributions | Primary Government | | Total | Airport | Library |
| | | | | Governmental Activities | Business Type Activities | | | |
| Government Activities: | | | | | | | | |
| General Government | \$ 137,565 | \$ 26,680 | \$ - | \$ (110,886) | \$ - | \$ (110,886) | \$ - | \$ - |
| Public Safety | 168,857 | - | - | (168,857) | - | (168,857) | - | - |
| Public Works | 101,375 | - | 86,592 | (14,784) | - | (14,784) | - | - |
| Economic Development | 21,616 | - | - | (21,616) | - | (21,616) | - | - |
| Total Government Activities | 429,414 | 26,680 | 86,592 | (316,143) | - | (316,143) | - | - |
| Business Type Activities: | | | | | | | | |
| Water and Sewer | 219,194 | 226,348 | - | - | 7,154 | 7,154 | - | - |
| Sewer | 575,596 | 109,657 | 137,718 | - | (328,221) | (328,221) | - | - |
| Sanitation | 192,560 | 219,856 | - | - | 27,296 | 27,296 | - | - |
| Debt Service Fund | 17,125 | 195,675 | - | - | 178,550 | 178,550 | - | - |
| Equipment | 15,427 | 53,034 | - | - | 37,608 | 37,608 | - | - |
| Other Enterprise Funds | 4,125 | 17,414 | - | - | 13,290 | 13,290 | - | - |
| Total Business Type Activities | 1,024,025 | 821,984 | 137,718 | - | (64,323) | (64,323) | - | - |
| Total Primary Government | \$ 1,453,439 | \$ 848,664 | \$ 224,310 | \$ (316,143) | \$ (64,323) | \$ (380,466) | | |
| Component Units | | | | | | | | |
| Airport | 14,932 | 3,110 | 5,696 | | | | (6,126) | - |
| Library | 18,073 | - | 1,541 | | | | - | (16,532) |
| Total Component Units | 33,005 | 3,110 | 7,237 | | | | (6,126) | (16,532) |
| General Receipts: | | | | | | | | |
| Property Tax Levies for General Purposes | | | | \$ 277,523 | \$ 3,760 | \$ 281,283 | \$ - | \$ - |
| Sales Taxes | | | | 72,726 | - | 72,726 | - | - |
| Other Taxes | | | | 3,742 | - | 3,742 | - | - |
| Non-restricted Grants and Contributions | | | | 105,348 | - | 105,348 | 5,000 | 18,365 |
| Interest Income | | | | 26,074 | 34,364 | 60,438 | 42 | 27 |
| Miscellaneous Receipts | | | | 32,654 | 14,400 | 47,054 | - | - |
| Total General Receipts | | | | 518,067 | 52,524 | 570,591 | 5,042 | 18,392 |
| Interfund Transfers | | | | 34,101 | (34,101) | - | - | - |
| Change in Net Position | | | | 236,025 | (45,900) | 190,124.98 | (1,084) | 1,860 |
| Net Position - January 1 | | | | 2,021,294 | 3,705,932 | 5,727,226 | 379,732 | 29,478 |
| Net Position - December 31 | | | | \$ 2,257,319 | \$ 3,660,032 | \$ 5,917,351 | \$ 378,648 | \$ 31,338 |

CITY OF LARIMORE
Larimore, North Dakota

Balance Sheet - Governmental Fund Types – Modified Cash Basis
December 31, 2018

| | Major Funds | | | Other Gov't Funds | Total Gov't Funds |
|--------------------------------------|-----------------|-----------------|-------------------|----------------------|----------------------|
| | General Fund | Highway Fund | Sales Tax Fund | | |
| ASSETS: | | | | | |
| CURRENT ASSETS | | | | | |
| Cash & Cash Equivalents | \$ 629,727 | \$ 343,933 | \$ 610,418 | \$ 1,614 | \$ 1,585,691 |
| Total Current Assets | 629,727 | 343,933 | 610,418 | 1,614 | 1,585,691 |
| OTHER ASSETS | | | | | |
| Loans Receivable | - | - | 133,353 | - | 133,353 |
| Total Other Assets | - | - | 133,353 | - | 133,353 |
| Total Assets | \$ 629,727 | \$ 343,933 | \$ 743,771 | \$ 1,614 | \$ 1,719,044 |
| LIABILITIES AND FUND BALANCE: | | | | | |
| CURRENT LIABILITIES | | | | | |
| Due to Other Funds | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total Current Liabilities | - | - | - | - | - |
| FUND BALANCE | | | | | |
| Nonspendable | - | - | 133,353 | - | 133,353 |
| Restricted For: | | | | | |
| Economic Development | - | - | 443,464 | - | 443,464 |
| Infrastructure | - | - | 166,954 | - | 166,954 |
| Public Works/Streets | - | 343,933 | - | - | 343,933 |
| Special Revenue Fund | - | - | - | 1,614 | 1,614 |
| Unassigned, Reported In: | | | | | |
| General Fund | 629,727 | - | - | - | 629,727 |
| Total Fund Balance | 629,727 | 343,933 | 743,771 | 1,614 | 1,719,044 |
| Total Liabilities & Fund Balance | \$ 629,727 | \$ 343,933 | \$ 743,771 | \$ 1,614 | \$ 1,719,044 |

CITY OF LARIMORE
Larimore, North Dakota

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

Total *Fund Balances* for Governmental Funds \$ 1,719,044

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds

| | | |
|--------------------------------|------------------|---------|
| Cost of Capital Assets | \$ 961,488 | |
| Less: Accumulated Depreciation | <u>(386,652)</u> | |
| Net Capital Assets | | 574,837 |

Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net position.

| | | |
|-----------------------------|-----------------|-----------------|
| Capital Lease Payable | <u>(36,561)</u> | |
| Total Long-Term Liabilities | | <u>(36,561)</u> |

Total Net Position of Governmental Activities \$ 2,257,319

CITY OF LARIMORE
Larimore, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Governmental Funds
For The Year Ended December 31, 2018

| | Major Funds | | | Other Gov't Funds | Total Gov't Funds |
|---|-------------------|-------------------|-------------------|----------------------|----------------------|
| | General Fund | Highway Fund | Sales Tax Fund | | |
| Receipts | | | | | |
| Property Tax | \$ 276,713 | \$ 810 | \$ - | \$ - | \$ 277,523 |
| Sales Taxes | - | - | 72,726 | - | 72,726 |
| Other Taxes | 3,742 | - | - | - | 3,742 |
| Intergovernmental Sources | 105,348 | 86,592 | - | - | 191,940 |
| Licenses, Permits and Fees | 6,219 | - | - | - | 6,219 |
| Charges for Services | 26,680 | - | - | - | 26,680 |
| Fines and Forfits | 3,779 | - | - | - | 3,779 |
| Interest | 8,419 | 6,567 | 11,089 | - | 26,074 |
| Other Sources | 23,137 | - | - | 20 | 23,157 |
| Total Receipts | 454,037 | 93,969 | 83,814 | 20 | 631,839 |
| Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 136,122 | - | - | 20 | 136,142 |
| Public Safety | 164,865 | - | - | - | 164,865 |
| Public Works | 25,613 | 51,119 | - | - | 76,732 |
| Economic Development | - | - | 21,616 | - | 21,616 |
| Capital Outlays: | 14,900 | - | - | - | 14,900 |
| Debt Service: | - | 19,201 | - | - | 19,201 |
| Total Disbursements | 341,501 | 70,320 | 21,616 | 20 | 433,457 |
| Excess Receipts over (under) Disbursements | 112,536 | 23,649 | 62,198 | - | 198,383 |
| Interfund Transfers In | 14,900 | 19,201 | - | - | 34,101 |
| Excess Receipts over (under) Disbursements after Interfund Transfers | \$ 127,436 | \$ 42,850 | \$ 62,198 | \$ - | \$ 232,484 |
| Total Other Financing Sources and Uses | | | | | |
| Net Change in Fund Balances | 127,436 | 42,850 | 62,198 | - | 232,484 |
| Fund Balance - January 1 | 502,291 | 301,083 | 681,573 | 1,614 | 1,486,561 |
| Fund Balance - December 31 | \$ 629,727 | \$ 343,933 | \$ 743,771 | \$ 1,614 | \$ 1,719,044 |

CITY OF LARIMORE
Larimore, North Dakota

**Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balance Governmental Funds to Statement of Activities – Modified Cash Basis**
December 31, 2018

Net change in *Fund Balance* - Total Governmental Funds \$ 232,484

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

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

Governmental funds report capital outlays as expenses. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 *are* capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital capital outlays exceeded depreciation in the current period.

| | |
|-----------------------------------|-----------------|
| Capital Asset Additions | 14,900 |
| Capital Asset Disposals | (501) |
| Current Year Depreciation Expense | <u>(28,257)</u> |

Governmental funds report debt principal payments as an expense. However in the statement of activities debt principal is not expensed nor is the receipt of borrowed funds treated as income. This is the amount of debt principal paid during the year.

| | |
|---------------------|---------------|
| Debt Principal Paid | <u>17,400</u> |
|---------------------|---------------|

| | |
|--|--------------------------|
| Change in <i>Net Position</i> of Governmental Activities | <u><u>\$ 236,025</u></u> |
|--|--------------------------|

CITY OF LARIMORE
Larimore, North Dakota

Statement of Net Position – Proprietary Funds – Modified Cash Basis
December 31, 2018

| | Business-type Activities - Enterprise Funds | | | | | | |
|---|---|-------------------|--------------------|-------------------|-------------------|------------------------------|------------------------------|
| | Major Funds | | | | | Other Enterprise Funds | Total Enterprise Funds |
| | Water & Sewer | Sewer Fund | Sanitation Fund | Bond Fund | Equipment Fund | | |
| ASSETS: | | | | | | | |
| CURRENT ASSETS | | | | | | | |
| Cash and Equivalents | \$ 519,741 | \$ 99,020 | \$ 313,819 | \$ 646,259 | \$ 229,701 | \$ 289,896 | \$ 2,098,436 |
| Restricted Cash and Equivalents | - | - | - | 103,240 | - | - | 103,240 |
| Total Current Assets | 519,741 | 99,020 | 313,819 | 749,498 | 229,701 | 289,896 | 2,201,676 |
| NONCURRENT ASSETS | | | | | | | |
| Capital Assets net of | | | | | | | |
| Accumulated Depreciation | 1,357,397 | 649,219 | 1,000 | - | 51,093 | - | 2,058,709 |
| Total Noncurrent Assets | 1,357,397 | 649,219 | 1,000 | - | 51,093 | - | 2,058,709 |
| OTHER ASSETS | | | | | | | |
| Certificates of Deposit | 22,944 | 206,442 | - | - | - | 15,498 | 244,884 |
| Restricted Certificates of Deposit | - | - | - | 45,310 | - | - | 45,310 |
| Total Other Assets | 22,944 | 206,442 | - | 45,310 | - | 15,498 | 290,195 |
| Total Assets | \$ 1,900,082 | \$ 954,682 | \$ 314,819 | \$ 794,809 | \$ 280,793 | \$ 305,394 | \$ 4,550,579 |
| LIABILITIES AND NET POSITION: | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts Payable | | | | | | | |
| Current Maturities of LT Debt | \$ 1,282 | \$ 9,412 | \$ - | \$ 110,000 | \$ - | \$ - | \$ 120,694 |
| Total Current Liabilities | 1,282 | 9,412 | - | 110,000 | - | - | 120,694 |
| NON CURRENT LIABILITIES | | | | | | | |
| Bonds Payable | 43,767 | 376,780 | - | 470,000 | - | - | 890,547 |
| Less: Current Maturities of LT Debt | (1,282) | (9,412) | - | (110,000) | - | - | (120,694) |
| Total Non Current Liabilities | 42,485 | 367,368 | - | 360,000 | - | - | 769,853 |
| Total Liabilities | 43,767 | 376,780 | - | 470,000 | - | - | 890,547 |
| NET POSITION | | | | | | | |
| Net investment in capital assets | 1,313,630 | 272,439 | 1,000 | (470,000) | 51,093 | - | 1,168,162 |
| Restricted for: | | | | | | | |
| Debt service | - | - | - | 794,809 | - | - | 794,809 |
| Equipment replacement | - | - | - | - | 229,701 | - | 229,701 |
| Unrestricted | 542,686 | 305,462 | 313,819 | - | - | 305,394 | 1,467,361 |
| Total Net Position | 1,856,315 | 577,902 | 314,819 | 324,809 | 280,793 | 305,394 | 3,660,032 |
| Total Liabilities & Net Position | \$ 1,900,082 | \$ 954,682 | \$ 314,819 | \$ 794,809 | \$ 280,793 | \$ 305,394 | \$ 4,550,579 |

CITY OF LARIMORE
Larimore, North Dakota

Statement of Receipts, Disbursements and Changes in Net Position – Proprietary Funds
Modified Cash Basis
For The Year Ended December 31, 2018

| | Business-type Activities - Enterprise Funds | | | | | | | Total Enterprise Funds |
|---|---|-------------------|-------------------|-------------------|-------------------|------------------------------|----|------------------------------|
| | Major Funds | | | | | Other Enterprise Funds | | |
| | Water & Sewer | Sewer Fund | Sanitation | Bond | Equipment | | | |
| Receipts: | | | | | | | | |
| Charges for Sales and Services: | | | | | | | | |
| Utility Sales | \$ 217,072 | \$ 109,657 | \$ 218,606 | \$ 195,675 | \$ 53,034 | \$ 17,414 | \$ | 811,459 |
| Fines & Penalties | 2,114 | - | - | - | - | - | - | 2,114 |
| Other Operating Revenue | 7,162 | - | 1,250 | - | - | - | - | 8,412 |
| Total Revenues | 226,348 | 109,657 | 219,856 | 195,675 | 53,034 | 17,414 | | 821,984 |
| Operating Disbursements: | | | | | | | | |
| Salaries & Wages | 76,664 | 33,730 | 13,944 | - | - | - | - | 124,338 |
| Benefits & Insurance | 21,274 | 13,311 | 5,408 | - | - | - | - | 39,992 |
| Contracted Services | 1,495 | - | 168,869 | - | - | - | - | 170,364 |
| Chemicals | 14,070 | - | - | - | - | - | - | 14,070 |
| Dues and Travel | 1,248 | - | - | - | - | - | - | 1,248 |
| Supplies | 338 | - | - | - | 2,731 | - | - | 3,068 |
| Office Expense | 5,804 | - | 910 | - | - | - | - | 6,715 |
| Repairs & Maintenance | 23,160 | 23,281 | 520 | - | - | 4,125 | - | 51,086 |
| Telephone | 1,243 | - | - | - | - | - | - | 1,243 |
| Uniforms | 1,978 | - | - | - | - | - | - | 1,978 |
| Utilities | 26,927 | 2,818 | - | - | - | - | - | 29,744 |
| Depreciation | 42,942 | 988 | - | - | 13,347 | - | - | 57,277 |
| Miscellaneous | 2,051 | 633 | 2,908 | - | - | - | - | 5,593 |
| Total Operating Expense | 219,194 | 74,761 | 192,560 | - | 16,078 | 4,125 | | 506,716 |
| Net Operating Income | 7,154 | 34,896 | 27,296 | 195,675 | 36,957 | 13,290 | | 315,268 |
| Non-Operating Receipts (Disbursements) | | | | | | | | |
| Sale of Capital Assets | - | - | - | - | 651 | - | - | 651 |
| Tax Revenue | 3,760 | - | - | - | - | - | - | 3,760 |
| Interest Income | 755 | 23,146 | 908 | 6,456 | - | 3,099 | - | 34,364 |
| Grant Receipts | - | 137,718 | - | - | - | - | - | 137,718 |
| Other Sources | 14,400 | - | - | - | - | - | - | 14,400 |
| Interest Expense | - | (1,035) | - | (17,125) | - | - | - | (18,160) |
| Engineering Fees | - | (499,800) | - | - | - | - | - | (499,800) |
| Total Non-operating Receipts (Disbursements) | 18,915 | (339,971) | 908 | (10,669) | 651 | 3,099 | | (327,067) |
| Income (Loss) Before Transfers | 26,069 | (305,075) | 28,205 | 185,006 | 37,608 | 16,389 | | (11,799) |
| Interfund Transfers In | 8,850 | 37,950 | - | - | - | - | - | 46,800 |
| Interfund Transfers (Out) | - | (46,800) | - | - | (34,101) | - | - | (80,901) |
| Change in Net Position | 34,919 | (313,925) | 28,205 | 185,006 | 3,507 | 16,389 | | (45,900) |
| Net Position - January 1 | 1,821,397 | 891,826 | 286,614 | 139,803 | 277,286 | 289,005 | | 3,705,932 |
| Net Position - December 31 | \$ 1,856,315 | \$ 577,902 | \$ 314,819 | \$ 324,809 | \$ 280,793 | \$ 305,394 | | \$ 3,660,032 |

CITY OF LARIMORE
Larimore, North Dakota

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

| | Major Funds | | | | | Other Enterprise Funds | Total Enterprise Funds |
|--|------------------|------------|------------|------------|------------|------------------------------|------------------------------|
| | Water & Sewer | Sewer | Sanitation | Bond | Equipment | | |
| Cash Flows from Operating Activities | | | | | | | |
| Receipts from Customers | \$ 226,348 | \$ 109,657 | \$ 219,856 | \$ 195,675 | \$ 53,034 | \$ 17,414 | \$ 821,984 |
| Payments to Suppliers | (78,313) | (26,732) | (173,208) | - | (2,731) | (4,125) | (285,109) |
| Payments to Employees | (97,938) | (47,041) | (19,352) | - | - | - | (164,331) |
| Total Cash Flows from Operating Activities | 50,096 | 35,884 | 27,296 | 195,675 | 50,304 | 13,290 | 372,545 |
| Cash Flows from Noncapital Financing Activities | | | | | | | |
| Transfers In/(Out) | 8,850 | (8,850) | - | - | (34,101) | - | (34,101) |
| Grant Receipts | - | 137,718 | - | - | - | - | 137,718 |
| Other Sources/(Uses) | 18,915 | (476,654) | 908 | 6,456 | - | 3,099 | (447,276) |
| Debt Proceeds | 43,767 | 321,340 | - | - | - | - | 365,107 |
| (Inc)/Decrease in Interfund Balances | - | - | - | - | - | - | - |
| Total Cash Flows from Noncapital Financing Activities | 71,532 | (26,446) | 908 | 6,456 | (34,101) | 3,099 | 21,448 |
| Cash Flows from Capital and Related Financing Activities | | | | | | | |
| Interest on Debt | - | (1,035) | - | (17,125) | - | - | (18,160) |
| Sale (Purchase) of Capital Assets | (52,617) | (538,708) | - | - | (4,944) | - | (596,269) |
| Principal on Debt | - | - | - | (110,000) | - | - | (110,000) |
| Total Cash Flows from Capital and Related Financing Activities | (52,617) | (539,743) | - | (127,125) | (4,944) | - | (724,429) |
| Net Increase (Decrease) in Cash & Cash Equivalents | 69,011 | (530,305) | 28,205 | 75,005.74 | 11,259 | 16,389 | (330,437) |
| Cash and Cash Equivalents - January 1 | 473,675 | 835,767 | 285,614 | 571,253 | 218,442 | 289,005 | 2,673,757 |
| Cash and Cash Equivalents - December 31 | \$ 542,686 | \$ 305,462 | \$ 313,819 | \$ 646,259 | \$ 229,701 | \$ 305,394 | \$ 2,343,320 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | | | | |
| (Loss) to Net Cash Provided (Used) by Operating Activities | 7,154 | 34,896 | 27,296 | 195,675 | 36,957 | 13,290 | 315,268 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | | | | | | |
| Depreciation Expense | 42,942 | 988 | - | - | 13,347 | - | 57,277 |
| Adjustment to Miscellaneous Expense | | | | | | | |
| Total Adjustments | 42,942 | 988 | - | - | 13,347 | - | 57,277 |
| Net Cash Provided/(Used) by Operating Activities | \$ 50,096 | \$ 35,884 | \$ 27,296 | \$ 195,675 | \$ 50,304 | \$ 13,290 | \$ 372,545 |

CITY OF LARIMORE
Larimore, North Dakota

Notes to The Financial Statements
For The Year Ended December 31, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Larimore. For financial reporting purposes, the City of Larimore's primary government includes all funds, account groups, elected officials, departments, boards, commissions, and authorities that make up the city's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14 "The Financial Reporting Entity". The criteria includes appointing a voting majority of an organization's governing board and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Larimore.

Based upon the application of these criteria, the component units discussed below are included within the City's reporting entity because of the significance of the operational or financial relationships with the city.

DISCRETELY PRESENTED COMPONENT UNITS – The component unit columns in the basic financial statements include the financial data of the city's two component units. These units are reported in separate columns to emphasize that they are legally separate from the city.

Larimore Airport Authority – The members of the governing board of the Larimore Airport Authority are appointed by the City's governing board. The City's governing board has the authority to approve, modify or disapprove the airport's operational budget. The City's governing board must approve the tax levy established by the airport. Separate financial statements have not been issued by the airport authority.

Edna Ralston Library – The members of the governing board of the Edna Ralston Library are appointed by the City's governing board. The City's governing board has the authority to approve, modify or disapprove the library's operation budget. The City's governing board must approve the tax levy established by the library. Separate financial statements have not been issued by the library.

EXCLUDED ORGANIZATIONS – The following governmental entities are not included in these financial statements since they do not meet the criteria contained in Statement 14:

Larimore Ambulance Authority; Larimore Fire Department – The City has a close working relationship with the Larimore Ambulance Authority and the Larimore Fire Department. The City is not financially accountable for these entities, as defined by GASB Statement 14. The City did provide operating grants to them.

The City's basic financial statements include all of the City operations. The basic financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from City of Larimore.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

The fund financial statements provide information about the City's funds. Separate financial statements for each fund category, governmental, proprietary, and fiduciary funds, are presented. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Governmental Funds

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Highway Fund – This fund is used to account for taxes received for streets and highways and for repair and maintenance projects.

Sales Tax Fund – This fund accounts for sales tax money for the city that is used for various economic development and city improvement projects.

Proprietary Funds

Enterprise Funds – This account group provides basic utility service to the City residents. The fund group operates utility systems and borrows money for capital improvements through revenue bonds. Enterprise funds use the modified cash basis of accounting as defined below. The city applies all GASB (Governmental Accounting Standards Board) pronouncements as well as the FASB (Financial Accounting Standards Board) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

In the government-wide statement of net position and statement of activities both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide and proprietary financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements, and proprietary financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Governmental funds are reported using the current financial resources measurement focus, within the limitations of the modified cash basis of accounting. Only cash and cash equivalents, long term notes receivable and inter-fund balances are generally included on their balance sheets; however, the governmental funds do recognize liabilities for payroll withholding. 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.

If the City utilized the basis of accounting recognized as generally accepted, the government-wide financials would be presented on the accrual basis of accounting. The fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for business-like fund types would use the accrual basis of accounting. 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.

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

D. Cash and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and certificates of deposit with maturities of less than 90 days.

The investments of the City consist of certificates of deposit, with a maturity in excess of 90 days, stated at cost.

E. Restricted Assets

Certain assets of the City's enterprise funds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

F. Capital Assets

Capital assets include land, buildings and improvements, furniture and equipment. Capital assets are reported in the government-wide financial statements and in the proprietary funds. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical 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. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------|--------------|
| Buildings | 50 |
| Equipment and Vehicles | 5-10 |
| Infrastructure and Projects | 50 |

G. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

H. Fund Balance and Net Position

Fund Financial Statement

Prior to GASB Statement 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the city is bound to honor them. The City first determines and reports non-spendable balances, then restricted, then committed, and so forth. The City's governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

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

Restricted fund balance – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – This category 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. The commitment can only be removed through the same action. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This category includes Governmental Fund balance that the town indents to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the City's administration comprised of the City administrative council.

Unassigned fund balance – This category included the residual balances in the governmental fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purpose within the General Fund.

Net Position

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

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

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

I. Interfund Transactions

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for receipts/disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Use of Estimates in Preparing Financial Statements

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

NOTE 2 LEGAL COMPLIANCE – BUDGETS

Budget Amendments

The City’s governing board made the following amendments to the City’s budget during 2018:

| Budget Amendments: | Revenues | | |
|---------------------------|------------------------|------------------|-----------------------|
| | Original Budget | Amendment | Amended Budget |
| Major Funds: | | | |
| General Fund | \$ 407,600 | \$ 46,437 | \$ 454,037 |
| Highway Fund | 219,770 | (125,801) | 93,969 |
| Sales Tax Fund | 40,000 | 72,274 | 112,274 |
| Expenditures | | | |
| Major Funds: | | | |
| General Fund | \$ 407,600 | \$ (79,699) | \$ 327,901 |
| Highway Fund | 137,970 | (88,362) | 49,608 |
| Sales Tax Fund | 40,000 | (32,052) | 7,948 |

NOTE 3 RISK MANAGEMENT

The City of Larimore 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.

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 pays an annual premium to NDIRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$1,040,915 for inland marine coverage.

The City of Larimore also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$350,000 for the City employees. The State Bonding Fund does not charge any premium for this coverage.

The City has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides health insurance coverage to all full-time employees. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 4 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with North Dakota Statutes, the City maintains deposits in a financial institution situated and doing business within this state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the City of Larimore to invest in:

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

The City's deposits at December 31, 2018, were entirely covered by federal depository insurance or by collateral held by the pledging financial institutions' trust department or agent in the city's name (category 2). For the purpose of credit-risking, all cash deposits and certificates are considered to be deposits.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage. All city funds were adequately insured or collateralized by governmental securities throughout 2018.

B. Investments

Credit Risk - Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

At year ended December 31, 2018, the City's carrying amount of deposits and CDs totaled \$4,140,023 and the bank balances totaled \$4,162,204. Of the bank balances, \$531,338 was covered by Federal Depository Insurance. The remaining bank balances totaling \$3,630,866 were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 5 ACCOUNTS RECEIVABLE

Governmental activities accounts receivable consists of amounts owed to the City by private individuals and organizations for goods or services provided. No allowance has been established for uncollectible accounts receivables.

NOTE 6 PROPERTY TAXES

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

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

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

NOTE 7 CAPITAL ASSETS

Following is a summary of changes in capital assets for the years ended December 31, 2018:

| | Balance 01/01/18 | Increases | Decreases | Balance 12/31/18 |
|--------------------------------|---------------------|--------------------|-----------------|---------------------|
| Governmental Activities | | | | |
| Non-depreciated assets | | | | |
| Land | \$ 53,667 | \$ - | \$ - | \$ 53,667 |
| Infrastructure in Process | - | - | - | - |
| Total non-depreciated assets | 53,667 | - | - | 53,667 |
| Depreciable assets | | | | |
| Buildings | 248,799 | - | - | 248,799 |
| Equipment & Vehicles | 559,236 | 14,900 | (120,075) | 454,061 |
| Infrastructure | 204,961 | - | - | 204,961 |
| Total depreciable assets | 1,012,997 | 14,900 | (120,075) | 907,821 |
| Less: accumulated depreciation | | | | |
| Buildings | (68,466) | (4,761) | - | (73,227) |
| Equipment & Vehicles | (404,853) | (19,397) | 119,574 | (304,676) |
| Infrastructure | (4,650) | (4,099) | - | (8,749) |
| Total accumulated depreciation | (477,969) | (28,257) | 119,574 | (386,652) |
| Net depreciable assets | 535,028 | (13,357) | (501) | 521,170 |
| Net Government Assets | \$ 588,695 | \$ (13,357) | \$ (501) | \$ 574,837 |
| Enterprise Activities | | | | |
| Non-depreciated assets | | | | |
| Land | \$ 1,000 | \$ - | \$ - | \$ 1,000 |
| Construction in Process | 100,050 | 591,325 | - | 691,375 |
| Total non-depreciated assets | 101,050 | 591,325 | - | 692,375 |
| Depreciable assets | | | | |
| Buildings | 38,951 | - | - | 38,951 |
| Equipment & Vehicles | 195,744 | 5,595 | - | 201,339 |
| Water Project | 1,826,750 | - | - | 1,826,750 |
| Total depreciable assets | 2,061,445 | 5,595 | - | 2,067,040 |
| Less: accumulated depreciation | | | | |
| Buildings | (12,571) | (999) | - | (13,570) |
| Equipment & Vehicles | (142,749) | (15,403) | - | (158,152) |
| Water Project | (488,110) | (40,875) | - | (528,985) |
| Total Accumulated Depreciation | (643,430) | (57,277) | - | (700,707) |
| Net Enterprise Assets | \$ 1,519,065 | \$ 539,643 | \$ - | \$ 2,058,709 |

| | Balance 01/01/18 | Increases | Decreases | Balance 12/31/18 |
|----------------------------------|---------------------|-------------------|-----------------|---------------------|
| Component Units | | | | |
| Depreciable Assets | | | | |
| Runway Overlay | \$ 376,270 | \$ - | \$ - | \$ 376,270 |
| Total depreciable assets | 376,270 | - | - | 376,270 |
| Less: accumulated depreciation | | | | |
| Runway Overlay | (21,321) | (7,525) | - | (28,846) |
| Total Accumulated Depreciation | (21,321) | (7,525) | - | (28,846) |
| Net Component Unit Assets | \$ 354,949 | \$ (7,525) | \$ - | \$ 347,424 |
| Total Net Capital Assets | \$ 2,462,708 | \$ 518,762 | \$ (501) | \$ 2,980,970 |

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

| | Government | Enterprise |
|-----------------------------------|------------------|------------------|
| Depreciation | | |
| General Government | \$ 1,423 | |
| Public Safety | 3,992 | - |
| Public Works | 22,842 | - |
| Water & Sewer Operations | - | 57,277 |
| Total Depreciation Expense | \$ 28,257 | \$ 57,277 |

NOTE 8 ECONOMIC DEVELOPMENT LOANS RECEIVABLE

The City, in conjunction with the Larimore Star Fund, provides economic development loans and grants to area businesses. The following is a summary of loan activity. No allowance has been established for estimated uncollectible loans.

| Borrower | Balance 1/1/2018 | Principal Payments | Loan Forgiveness | Balance 12/31/2018 |
|-----------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| Kyle Sather | \$ 4,668 | \$ (4,668) | \$ - | \$ - |
| Terry Trosen Co. | 34,222 | (8,051) | - | 26,171 |
| Valley Community Health Centers | 10,000 | - | (5,000) | 5,000 |
| Northwood Deaconess Health Center | 12,360 | - | (6,180) | 6,180 |
| Good Samaritan Society | 12,000 | - | (4,000) | 8,000 |
| DB's The Station | 62,800 | (7,200) | - | 55,600 |
| Jay and Joleen Landis | 12,489 | - | - | 12,489 |
| Celebrations of Life LLC | 21,772 | (1,859) | - | 19,913 |
| Total | \$ 170,311 | \$ (21,778) | \$ (15,180) | \$ 133,353 |

NOTE 9 LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended is as follows. Additional detailed information is available on the following pages.

| | Balance | | | Balance | Due Within |
|---------------------------|------------|------------|--------------|------------|------------|
| | 01/01/2018 | Increases | Decreases | 12/31/18 | One Year |
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities | | | | | |
| Capital lease | \$ 70,799 | \$ - | \$ (17,400) | \$ 36,561 | \$ 17,981 |
| | \$ 70,799 | \$ - | \$ (17,400) | \$ 36,561 | \$ 17,981 |
| Business-type activities | | | | | |
| Revenue bonds | \$ 690,000 | \$ 502,825 | \$ (247,718) | \$ 890,547 | \$ 120,694 |
| | \$ 690,000 | \$ 502,825 | \$ (247,718) | \$ 890,547 | \$ 120,694 |

REVENUE BONDS

The City has issued revenue bonds where the City pledges income derived from certain assets or programs to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects. Larimore is obligated to the following revenue bonds:

Water Revenue Bonds of 2002

Water project construction bonds due in annual installments of \$80,000 to \$120,000 through September 1, 2022; interest at 2.5%. On December 31, 2019, the city has \$148,550 reserved for this debt issue.

Outstanding December 31, 2018 \$470,000

Wastewater Treatment Assessment Warrant Series 2017

The City is authorized to borrow up to \$9,360,000, of which \$380,000 is eligible for loan forgiveness. Financing will be provided under the Clean Water State Revolving Fund Program and carries a 1.5% interest rate plus a .5% administration fee. Payments are due semiannually until maturity on September 1, 2048. As of the year ended December 31, 2018, the City has drawn \$538,258, of which \$161,478 was eligible for loan forgiveness.

Outstanding December 31, 2018 \$376,780

Water Treatment Assessment Warrant Series 2018

The City is authorized to borrow up to \$119,500. Financing will be provided under the Clean Water State Revolving Fund Program and carries a 1.5% interest rate plus a .5% administration fee. Payments are due semiannually until maturity on September 1, 2048. As of the year ended December 31, 2018, the City has drawn \$43,767.

Outstanding December 31, 2018 \$43,767

Total Revenue Bonds Payable \$890,547

CAPITAL LEASE PAYABLE

During 2016, the City entered into a lease agreement to finance the acquisition of a street sweeper. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at

the present value of the future minimum lease payments as of the inception date. The lease is for five years at a 3.25% interest rate.

Future principal and interest payments for the City’s long term liabilities are as follows:

| Year | Revenue Bonds | | Capital Lease | |
|-----------|-------------------|-------------------|------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2019 | 120,694 | 24,125 | 17,981 | 1,220 |
| 2020 | 130,540 | 17,197 | 18,581 | 620 |
| 2021 | 130,750 | 13,986 | - | - |
| 2022 | 130,960 | 10,771 | - | - |
| 2023 | 11,169 | 7,552 | - | - |
| 2024-2028 | 59,360 | 34,326 | - | - |
| 2029-2033 | 66,070 | 28,107 | - | - |
| 2034-2038 | 72,574 | 21,248 | - | - |
| 2039-2043 | 80,177 | 13,712 | - | - |
| 2044-2048 | 88,253 | 5,341 | - | - |
| 2049-2053 | - | - | - | - |
| | \$ 890,547 | \$ 176,365 | \$ 36,561 | \$ 1,841 |

NOTE 10 PENSION PLAN

Because the City reports its financial statements on the modified cash basis, as described in Note 1, the net pension liability and related deferred inflows and outflows are not required to be reported in the basic financial statements. The following information is for informational purposes.

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS’ fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

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

public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the Employer reported a liability of \$167,310 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2018, the Employer's proportion was 0.009914 percent, which was a decrease of 0.000371 from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Employer recognized pension expense of \$28,506. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experiences | \$ 442 | \$ 5,692 |
| Changes of assumptions | 60,395 | 2,388 |
| Net difference between projected and actual earnings on pension plan investments | - | 814 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 9,123 | 6,509 |
| *Employer contributions subsequent to the measurement date of July 1, 2018 | 4,360 | - |
| Total | \$ 74,320 | \$ 15,403 |

\$4,360 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended December 31: | |
|--------------------------------|-----------|
| 2019 | \$ 19,072 |
| 2020 | 16,781 |
| 2021 | 11,423 |
| 2022 | 7,000 |
| 2023 | 281 |
| Thereafter | - |
| Total | \$ 54,557 |

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|----------------------------|-------------------------------------|----------------------|
| Inflation | 2.50% | |
| Salary increases | <u>Service at Beginning of Year</u> | <u>Increase Rate</u> |
| | 0 | 15.00% |
| | 1 | 10.00% |
| | 2 | 8.00% |
| | <u>Age*</u> | |
| | Under 36 | 8.00% |
| | 36 - 40 | 7.50% |
| | 41 - 49 | 6.00% |
| 50+ | 5.00% | |
| Investment rate of return | 7.75%, net of investment expenses | |
| Cost-of-living adjustments | None | |

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|--------------------------|---|
| Domestic Equity | 30% | 6.05% |
| International Equity | 21% | 6.71% |
| Private Equity | 7% | 10.20% |
| Domestic Fixed Income | 23% | 1.45% |
| Global Real Estate | 19% | 5.11% |
| Cash Equivalents | 0% | 0.00% |

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to

make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.62%; and the resulting Single Discount Rate is 6.32%.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 6.32 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.32 percent) or 1-percentage-point higher (7.32 percent) than the current rate:

| | 1% Decrease (5.32%) | Current Discount Rate (6.32%) | 1% Increase (7.32%) |
|---|--------------------------------|--|--------------------------------|
| Employer's proportionate share of the net pension liability | 227,343 | 167,310 | 117,315 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

Payables to the Pension Plan

As of December 30, 2018, the district had no accrued payable to the pension plan.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

Because the City reports its financial statements on the modified cash basis, as described in Note 1, the net other post-employment benefit (OPEB) liability and related deferred inflows and outflows are not required to be reported in the basic financial statements. The following information is for informational purposes.

Summary of Significant Accounting Policies

Other Post Employment Benefits (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the OPEB Plan

North Dakota Public Employees Retirement System

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the Employer reported a liability of \$7,331 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net OPEB liability was based on the Employer's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2018, the Employer's proportion was 0.0093087 percent, which was a decrease of 0.000397 from its proportion

measured as of June 30, 2017.

For the year ended December 31, 2018, the Employer recognized OPEB expense of \$887. At December 31, 2018, the Employer reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experiences | \$ 220 | \$ 151 |
| Changes of assumptions | 601 | - |
| Net difference between projected and actual earnings on OPEB plan investments | - | 158 |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 219 | 41 |
| *Employer contributions subsequent to the measurement date of July 1, 2018 | 698 | - |
| Total | \$ 1,738 | \$ 350 |

\$698 reported as deferred outflows of resources related to OPEB resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as:

Year ended December 31:

| | |
|--------------|---------------|
| 2019 | \$ 96 |
| 2020 | 96 |
| 2021 | 96 |
| 2022 | 165 |
| 2023 | 152 |
| Thereafter | 85 |
| Total | \$ 690 |

Actuarial assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.50% |
| Salary increases | Not applicable |
| Investment rate of return | 7.50%, net of investment expenses |
| Cost-of-living adjustments | None |

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for

females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--------------------------|--------------------------|---|
| Lg Cap Domestic Equities | 37% | 5.80% |
| Sm Cap Domestic Equities | 9% | 7.05% |
| International Equities | 14% | 6.20% |
| Core-Plus Fixed Income | 40% | 1.46% |

Discount rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plans as of June 30, 2018, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|--------------------------------|--|--------------------------------|
| Employer's proportionate share of the net OPEB liability | 9,275 | 7,331 | 5,664 |

Payables to the OPEB Plan

As of December 30, 2018, the district had no accrued payable to the OPEB plan.

NOTE 12 INTER-FUND TRANSFERS

Inter-fund Transfers

Transfers were made for debt service requirements. The following is a reconciliation of cash transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2018:

| Fund | Transfers In | Transfers (Out) |
|----------------|-------------------------|----------------------------|
| General Fund | \$ 14,900 | \$ - |
| Highway Fund | 19,201 | - |
| Equipment Fund | - | (34,101) |
| Water Fund | 8,850 | - |
| Sewer Fund | 37,950 | (46,800) |
| | <u>\$ 80,901</u> | <u>\$ (80,901)</u> |

NOTE 13 COMPENSATED ABSENCES

The City does not account for compensated absences, as the amount of liability cannot be readily ascertained.

NOTE 14 COMMITMENTS

The City is considering undertaking several large, interrelated projects including a master lift station improvement, water and sewer main replacements, storm drain replacements, curb and gutter replacements, and street repairs. The projects are on hold until the city can obtain favorable financing, with the exception of the master lift station improvement project (see Note 14 Subsequent Events).

Planning for all of the projects began in 2017, and engineering fees related to planning are expected to cost \$817,000. As of December 31, 2018, the City has paid \$817,000 of these fees.

Of the total engineering fees, \$109,350 is attributable to the master lift station project (see Note 7 Capital Assets and Note 15 Subsequent Events) and \$707,650 is attributable to the other projects, which the City has not made a final determination on. Of the costs related to the master lift station project, \$109,350 has been paid as of December 31, 2018, and has been capitalized as construction in process (see Note 7 Capital Assets). The remaining costs paid during 2018 have been expensed due to the fact that the city may forgo the projects.

NOTE 15 SUBSEQUENT EVENTS

Lift Station Improvement Project

In June 2018, the City began a master lift station improvement project. The project is expected to cost \$824,500. The City will fund the project with a combination Wastewater Treatment Assessment Warrants, Series 2017 and Series 2018, and loan forgiveness through the CWSRF Capitalization Grant of approximately 30% of the loan amount.

Wastewater Treatment Assessment Warrants, Series 2017

The City is authorized to borrow up to \$9,360,000 as Wastewater Treatment Assessment Warrants, Series 2017. Of that amount, \$380,700 is eligible for loan forgiveness. As discussed in Note 9, Long Term Liabilities, the City has borrowed \$376,780 as of December 31, 2018. Although no formal decision has been made as of the date of the audit report, the City anticipates borrowing an additional \$463,667 to pay for the master lift station improvement project. If the City decides to borrow the full authorized amount, future principal and interest payments would be as follows:

| Year | Revenue Bonds | | | |
|-----------|---------------------|---------------------|-------------------|----------------------|
| | Principal | Interest | Admin Fees | Total |
| 2019 | 224,300 | 212,034 | 67,645 | 503,979 |
| 2020 | 225,000 | 131,325 | 43,775 | 400,100 |
| 2021 | 230,000 | 127,950 | 42,650 | 400,600 |
| 2022 | 235,000 | 124,500 | 41,500 | 401,000 |
| 2023 | 240,000 | 120,975 | 40,325 | 401,300 |
| 2024-2028 | 1,275,000 | 549,375 | 183,125 | 2,007,500 |
| 2029-2033 | 1,400,000 | 450,000 | 150,000 | 2,000,000 |
| 2034-2038 | 1,555,000 | 340,500 | 113,500 | 2,009,000 |
| 2039-2043 | 1,710,000 | 219,300 | 73,100 | 2,002,400 |
| 2044-2048 | 1,885,000 | 85,650 | 28,550 | 1,999,200 |
| | \$ 8,979,300 | \$ 2,361,609 | \$ 784,170 | \$ 12,125,079 |

Water Treatment Assessment Warrants, Series 2018

The City is authorized to borrow up to \$119,500 as Wastewater Treatment Assessment Warrants, Series 2018. As discussed in Note 9, Long Term Liabilities, the City has borrowed \$43,767 as of December 31, 2018. The City anticipates borrowing the remaining \$75,733 in the subsequent year to pay for the drinking water project. If the City decides to borrow the full authorized amount, future principal and interest payments would be as follows:

| Year | Revenue Bonds | | | |
|-----------|-------------------|------------------|-----------------|-------------------|
| | Principal | Interest | Admin Fees | Total |
| 2019 | 3,500 | 1,296 | 449 | 5,245 |
| 2020 | 3,000 | 1,740 | 580 | 5,320 |
| 2021 | 3,000 | 1,695 | 565 | 5,260 |
| 2022 | 3,000 | 1,650 | 550 | 5,200 |
| 2023 | 3,000 | 1,605 | 535 | 5,140 |
| 2024-2028 | 16,000 | 7,350 | 2,450 | 25,800 |
| 2029-2033 | 20,000 | 6,000 | 2,000 | 28,000 |
| 2034-2038 | 20,000 | 4,500 | 1,500 | 26,000 |
| 2039-2043 | 23,000 | 2,955 | 985 | 26,940 |
| 2044-2048 | 25,000 | 1,125 | 375 | 26,500 |
| | \$ 119,500 | \$ 29,916 | \$ 9,989 | \$ 159,405 |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LARIMORE
Larimore, North Dakota

Budget Comparison Schedule – Modified Cash Basis
General Fund
For The Year Ended December 31, 2018

| | Original Budget | Final Budget | Actual | Variance |
|---|--------------------|-------------------|-------------------|-----------------|
| Revenues: | | | | |
| Taxes | \$ 283,400 | \$ 280,455 | \$ 280,455 | - |
| Licenses, Permits and Fees | 5,200 | 6,219 | 6,219 | - |
| Intergovernmental Sources | 89,400 | 105,348 | 105,348 | - |
| Charges for Services | - | 26,680 | 26,680 | - |
| Fines, Forfeitures and Penalties | 2,000 | 3,779 | 3,779 | - |
| Interest | - | 8,419 | 8,419 | - |
| Other Sources | 27,600 | 23,137 | 23,137 | - |
| Total Revenues | 407,600 | 454,037 | 454,037 | - |
| Expenditures: | | | | |
| General Government | 145,850 | 137,423 | 136,122 | 1,300 |
| Public Safety | 178,050 | 164,865 | 179,765 | (14,900) |
| Public Works | 83,700 | 25,613 | 25,613 | - |
| Total Expenditures | 407,600 | 327,901 | 341,501 | (13,600) |
| Excess Revenues over (under) Expenditures | - | 126,135 | 112,536 | (13,600) |
| Interfund Transfers In (Out) | - | - | 14,900 | 14,900 |
| Excess Revenues over (under) Disbursements after Interfund Transfers | - | 126,135 | 127,436 | 1,300 |
| Fund Balance - January 1 | 502,291 | 502,291 | 502,291 | |
| Fund Balance - December 31 | \$ 502,291 | \$ 628,426 | \$ 629,727 | |

CITY OF LARIMORE
Larimore, North Dakota

Budget Comparison Schedule – Modified Cash Basis
Highway Fund
For The Year Ended December 31, 2018

| | Original Budget | Final Budget | Actual | Variance |
|---|--------------------|-------------------|-------------------|-----------------|
| Revenues: | | | | |
| Taxes | \$ 137,970 | \$ 810 | \$ 810 | \$ - |
| Intergovernmental Sources | 81,800 | 86,592 | 86,592 | - |
| Interest | - | 6,567 | 6,567 | - |
| Other Sources | - | - | - | - |
| Total Revenues | 219,770 | 93,969 | 93,969 | - |
| Expenditures: | | | | |
| Public Works | 137,970 | 49,608 | 51,119 | (1,511) |
| Debt Service | - | - | 19,201 | (19,201) |
| Total Expenditures | 137,970 | 49,608 | 70,320 | (20,712) |
| Excess Revenues over (under) Expenditures | 81,800 | 44,361 | 23,649 | (20,712) |
| Interfund Transfers In (Out) | - | - | 19,201 | 19,201 |
| Excess Revenues over (under) Disbursements after Interfund Transfers | 81,800 | 44,361 | 42,850 | (1,511) |
| Fund Balance - January 1 | 301,083 | 301,083 | 301,083 | |
| Fund Balance - December 31 | \$ 382,883 | \$ 345,444 | \$ 343,933 | |

CITY OF LARIMORE
Larimore, North Dakota

Budget Comparison Schedule – Modified Cash Basis
Sales Tax Fund
For The Year Ended December 31, 2018

| | Original Budget | Final Budget | Actual | Variance |
|---|--------------------|-------------------|-------------------|-----------------|
| Revenues: | | | | |
| Sales Taxes | \$ 40,000 | \$ 77,896 | \$ 72,726 | \$ (5,170) |
| Interest | - | 10,798 | 11,089 | 291 |
| Other Sources | - | 23,581 | - | (23,581) |
| Total Revenues | 40,000 | 112,274 | 83,814 | (28,460) |
| Expenditures: | | | | |
| Economic Development | 20,000 | 7,948 | 21,616 | (13,668) |
| Infrastructure | 20,000 | - | - | - |
| Total Expenditures | 40,000 | 7,948 | 21,616 | (13,668) |
| Excess Revenues over (under) Expenditures | - | 104,326 | 62,198 | (42,128) |
| Interfund Transfers In (Out) | - | (5,170) | - | 5,170 |
| Excess Revenues over (under) Disbursements after Interfund Transfers | - | 99,156 | 62,198 | (36,958) |
| Fund Balance - January 1 | 681,573 | 681,573 | 681,573 | |
| Fund Balance - December 31 | \$ 681,573 | \$ 780,729 | \$ 743,771 | |

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Employer's Share of Net Pension Liability
North Dakota Public Employees Retirement System
 Last 10 Fiscal Years*

| Year Ended December 31 | Employer's Proportion Of the Net Pension Liability (Asset) | Employer's Proportionate Share Of the Net Pension Liability (Asset) | Employer's Covered Employee Payroll | Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll | Plan Fiduciary Net Position As a % of the Total Pension Liability |
|-----------------------------------|---|--|--|---|--|
| 2014 | 0.009100% | 57,760 | 76,655 | 75.4% | 77.70% |
| 2015 | 0.011457% | 77,906 | 102,064 | 76.3% | 77.15% |
| 2016 | 0.009928% | 96,758 | 100,046 | 96.7% | 70.46% |
| 2017 | 0.010285% | 165,314 | 104,993 | 157.5% | 61.98% |
| 2018 | 0.009914% | 167,310 | 101,852 | 164.3% | 62.80% |

*Complete data from this schedule is not available prior 2014.

Amounts presented for each fiscal year have a measurement date of the June 30th of the respective year.

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Employer Pension Contributions
North Dakota Public Employees Retirement System
 Last 10 Fiscal Years*

| Year Ended December 31 | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Employee Payroll | Contributions as a % of Covered Employee Payroll |
|-----------------------------------|--|---|---|--|---|
| 2014 | 5,458 | 5,458 | 0 | 76,655 | 7.12% |
| 2015 | 7,753 | 8,866 | (1,113) | 102,064 | 8.69% |
| 2016 | 7,244 | 8,492 | (1,248) | 100,046 | 8.49% |
| 2017 | 7,613 | 9,488 | (1,875) | 104,993 | 9.04% |
| 2018 | 7,502 | 9,064 | (1,562) | 101,852 | 8.90% |

*Complete data from this schedule is not available prior 2014.

Amounts presented for each fiscal year have a measurement date of the June 30th of the respective year.

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Employer's Share of Net OPEB Liability
North Dakota Public Employees Retirement System
 Last 10 Fiscal Years*

| Year Ended December 31 | Employer's Proportion Of the Net OPEB Liability (Asset) | Employer's Proportionate Share Of the Net OPEB Liability (Asset) | Employer's Covered Employee Payroll | Employer's Proportionate Share Of the Net OPEB Liability (Asset) as a % of its covered-employee Payroll | Plan Fiduciary Net Position As a % of the Total OPEB Liability |
|-----------------------------------|--|---|--|--|---|
| 2017 | 0.009705% | 7,677 | 104,993 | 7.3% | 59.78% |
| 2018 | 0.009308% | 7,331 | 101,852 | 7.2% | 61.89% |

*Complete data from this schedule is not available prior 2017.

Amounts presented for each fiscal year have a measurement date of the June 30th of the respective year.

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Employer OPEB Contributions
North Dakota Public Employees Retirement System
 Last 10 Fiscal Years*

| Year Ended | Statutorily | Contributions in Relation | Contribution | Employer's Covered | Contributions |
|--------------------|------------------------------|------------------------------------|---------------------|---------------------------|-------------------------|
| December 31 | Required Contribution | to the Statutorily Required | Deficiency | Employee Payroll | as a % of |
| 2017 | 1,220 | Contribution | (Excess) | 104,993 | Covered Employee |
| 2018 | 1,195 | 1,519 | (299) | 101,852 | Payroll |
| | | 1,451 | (256) | | 1.45% |
| | | | | | 1.42% |

*Complete data from this schedule is not available prior 2017.

Amounts presented for each fiscal year have a measurement date of the June 30th of the respective year.

CITY OF LARIMORE
Larimore, North Dakota

Notes To The Required Supplementary Information
December 31, 2018

NOTE 1 BUDGETS

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

The city auditor prepares a preliminary budget for the general and some of the special revenue funds on the modified cash basis of accounting. Because not all special revenue funds are budgeted, a budget to actual comparison of special revenue funds is not done. The preliminary budget includes proposed expenditures and the means of financing them. The governing body reviews the preliminary budget, may make revisions and approve it on or before September 10. On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items.

The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10.

No expenditure shall be made or liability incurred in excess of the appropriation, except for transfers as authorized by North Dakota Century Code Section 40-40-21. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

The City has some special revenue funds that do not have a tax levy and very minimal expenditures that are not budgeted. Management therefore does not prepare budget to actual comparisons for the special revenue fund groups.

The City of Larimore overspent the budget in the following funds for the 2018 year:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------|---------------|---------------|-----------------|
| General Fund | \$327,901 | \$341,501 | \$(13,600) |
| Highway Fund | 49,608 | 70,320 | (20,712) |
| Sales Tax Fund | 7,948 | 21,616 | (13,668) |

State Law requires the city to amend its budget if at any point during the year they need to incur expenditures in excess of the budget for that fund. The city did not perform that required action. No remedial action is expected to be taken. The city does intend to amend budgets in future years as needed to comply with state statutes.

NOTE 2 PENSION PLANS

North Dakota Public Employees Retirement System

Changes of Benefit Terms

There were no changes to benefits for the year ended June 30, 2018, the most recent measurement date.

Changes of Assumptions

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018, based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

NOTE 3 OTHER POST EMPLOYMENT BENEFIT PLANS

North Dakota Public Employees Retirement System

Changes of Benefit Terms

There were no changes to benefits for the year ended June 30, 2018.

Changes of Assumptions

Amounts reported in 2018 reflect actuarial assumption changes effective July 1, 2018 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

SUPPLEMENTARY INFORMATION

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Fund Activity – Arising from Cash Transactions – Modified Cash Basis
December 31, 2018

| Governmental Funds | Balance 01/01/18 | Receipts | Transfers In | Debt Proceeds | Transfers Out | Disbursements | Balance 12/31/18 |
|---------------------------------|---------------------|---------------------|------------------|------------------|--------------------|-----------------------|---------------------|
| Major Funds | | | | | | | |
| General | \$ 502,291 | \$ 454,037 | \$ 14,900 | \$ - | \$ - | \$ (341,501) | \$ 629,727 |
| Highway | 301,083 | 93,969 | 19,201 | - | - | (70,320) | 343,933 |
| Sales Tax | 681,573 | 83,814 | - | - | - | (21,616) | 743,771 |
| Total Major Funds | \$ 1,484,947 | \$ 631,819 | \$ 34,101 | \$ - | \$ - | \$ (433,437) | \$ 1,717,430 |
| Non-major Funds | | | | | | | |
| Non-City Purchases | \$ 1,614 | \$ 20 | \$ - | \$ - | \$ - | \$ (20) | \$ 1,614 |
| Total Non-major Funds | \$ 1,614 | \$ 20 | \$ - | \$ - | \$ - | \$ (20) | \$ 1,614 |
| Total Governmental Funds | \$ 1,486,561 | \$ 631,839 | \$ 34,101 | \$ - | \$ - | \$ (433,457) | \$ 1,719,044 |
| Enterprise Funds | | | | | | | |
| Major Funds | | | | | | | |
| Water & Sewer | \$ 1,821,397 | \$ 245,262 | \$ 8,850 | \$ - | \$ - | \$ (219,194) | \$ 1,856,315 |
| Sewer | 891,826 | 270,521 | 37,950 | - | (46,800) | (575,596) | 577,902 |
| Sanitation | 286,614 | 220,765 | - | - | - | (192,560) | 314,819 |
| Bond | 139,803 | 195,675 | - | - | - | (10,669) | 324,809 |
| Equipment | 277,286 | 53,034 | - | - | (34,101) | (15,427) | 280,793 |
| Total Major Funds | \$ 3,416,927 | \$ 985,257 | \$ 46,800 | \$ - | \$ (80,901) | \$ (1,013,445) | \$ 3,354,638 |
| Non-major Funds | | | | | | | |
| Net Revenue | 447 | - | - | - | - | - | 447 |
| Spraying | 65,546 | 8,707 | - | - | - | (2,586) | 71,667 |
| Water Treatment | 89,268 | 1,466 | - | - | - | - | 90,733 |
| Well | 133,745 | 10,340 | - | - | - | (1,538) | 142,547 |
| Total Non-major Funds | \$ 289,005 | \$ 20,513 | \$ - | \$ - | \$ - | \$ (4,125) | \$ 305,394 |
| Total Enterprise Funds | \$ 3,705,932 | \$ 1,005,770 | \$ 46,800 | \$ - | \$ (80,901) | \$ (1,017,569) | \$ 3,660,032 |
| Agency Funds | | | | | | | |
| Park | \$ - | \$ 20,364 | \$ - | \$ - | \$ - | \$ (20,364) | \$ - |
| Total Agency Funds | \$ - | \$ 20,364 | \$ - | \$ - | \$ - | \$ (20,364) | \$ - |
| Component Units | | | | | | | |
| Airport | \$ 379,732 | \$ 13,848 | \$ - | \$ - | \$ - | \$ (14,932) | \$ 378,647 |
| Library | 29,478 | 19,934 | - | - | - | (18,073) | 31,338 |
| Total Component Units | \$ 409,210 | \$ 33,781 | \$ - | \$ - | \$ - | \$ (33,005) | \$ 409,986 |
| Total Reporting Entity | \$ 5,601,702 | \$ 1,691,755 | \$ 80,901 | \$ - | \$ (80,901) | \$ (1,504,396) | \$ 5,789,062 |

Accounting For Success

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 Larimore, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Larimore, North Dakota, as of and for the years ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Larimore, North Dakota's basic financial statements and have issued our report thereon dated February 07, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be either a material weakness or significant deficiency.

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 deficiency 2018-1, as described in the accompanying schedule of findings and responses, to be a material weakness.

CAVALIER

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(701) 265-8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

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 2018-2, as described in the accompanying schedule of findings and responses, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Larimore, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Larimore, North Dakota's Response to Findings

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

Purpose of this Report

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



Mortenson and Rygh
Certified Public Accountants
Park River, North Dakota

February 07, 2020

CITY OF LARIMORE
Larimore, North Dakota

Schedule of Findings and Responses
For The Year Ended December 31, 2018

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2018-1 Segregation of Duties

Condition

The City of Larimore, North Dakota has one bookkeeper responsible for most accounting functions and general ledger maintenance.

Effect

Without adequate fraud risk programs and controls, the City of Larimore exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

Cause

There is no segregation of duties as one employee is responsible to collect monies, deposit, money, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the City of Larimore's financial condition.

Criteria

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the City of Larimore, North Dakota.

Recommendation

If at any time it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the City do so. We further recommend that the district implement any controls possible to separate the function of approval, posting of transactions, reconciliation, and custody of assets.

Client Response

No response is considered necessary.

2018-2 Financial Statement Preparation

Condition:

Mortenson & Rygh assist the City's management in preparing financial statements and disclosures that are presented in accordance with the modified cash basis of accounting.

Effect:

Without the assistance of the auditors, the financial statements could be misstated or omit material financial statement disclosures.

Cause:

The City's internal control system is not designed to provide for the preparation of the financial statements and accompanying notes to the financial statements.

Criteria:

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted account principles.

Recommendation:

We recommend that management be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. We further recommend that a responsible official review a current appropriate disclosure checklist or other guidance to ensure the financial statements contain all necessary disclosures.

Client Response:

The City Council is aware of this condition, and will consider the risks and costs associated with the financial statement preparation. The City will continue to request that Mortenson & Rygh assist with preparation of financial statements.