

**CITY OF KINDRED**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

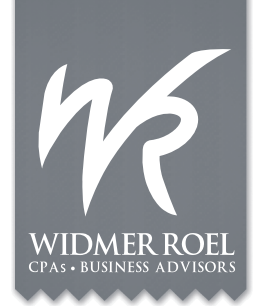
**WITH INDEPENDENT AUDITOR'S REPORT**

**CITY OF KINDRED**  
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## INDEPENDENT AUDITOR'S REPORT

City Council  
**City of Kindred**  
Kindred, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities of the **City of Kindred**, as of and for the year ended December 31, 2018, and 2017, and the related notes to the financial statements which collectively comprise the **City of Kindred's** basic financial statements as listed in the table of contents.

We were engaged to audit the accompanying financial statements of each major fund and the aggregate remaining fund information of the **City of Kindred**, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the **City of Kindred's** basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

**City of Kindred's** management is responsible for the preparation and fair presentation of these financial statements in accordance with modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no

such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the governmental activities and business-type activities.

*Summary of Opinions*

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental activities	Qualified
Business-type activities	Qualified
Major governmental funds	Disclaimer
Major proprietary funds	Disclaimer
Aggregate remaining fund information	Disclaimer

*Basis for Qualified Opinion on Governmental Activities and Business-Type Activities*

As discussed in Note 1 to the financial statements, management has not recorded capital assets in the governmental activities, the business-type activities, and the major proprietary fund, and, accordingly, has not recorded depreciation expense on those assets. Modified cash basis of accounting requires that capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities, the business-type activities, and the major proprietary fund. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities and the business-type activities has not been determined.

*Qualified Opinion on Governmental Activities and Business-Type Activities*

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion on Governmental Activities and Business-type Activities paragraph, the financial statements referred to previously present fairly, in all material respects, the financial position of the governmental activities and the business-type activities of **City of Kindred**, as of December 31, 2018, and 2017 and the respective changes in financial position thereof for the years then ended in accordance with modified cash basis of accounting.

*Basis for Disclaimer Opinion for Major governmental funds, Major Proprietary Funds, and Aggregate remaining fund information*

As stated in Note 1 of the financial statements, the **City of Kindred's** financial accounting software is not designed for fund accounting; therefore, the accounting software does not fully allocate fund level receipts, disbursements and changes in fund balance.

*Disclaimer of Opinion*

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

*Emphasis of Matter - Basis of Accounting*

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Kindred's** basic financial statements. The schedules of fund activity arising from cash transactions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards. We have disclaimed on the major governmental funds, major proprietary funds, and the aggregate remaining fund information as highlighted in the Basis for Disclaimer of Opinion paragraphs.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2024, on our consideration of **City of Kindred's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **City of Kindred's** internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "William Rouse". The signature is written in a cursive style with a vertical line extending downwards from the end.

Fargo, North Dakota  
September 4, 2024

**CITY OF KINDRED**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2018**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Total</b></u>
<b>ASSETS</b>			
Cash and investments	\$ <u>1,418,801</u>	\$ <u>465,935</u>	\$ <u>1,884,736</u>
<b>LIABILITIES</b>			
Long-term liabilities			
Due within one year			
Long-term debt	\$ 536,602	\$ -	\$ 536,602
Due after one year			
Long-term debt	<u>3,493,625</u>	<u>337,064</u>	<u>3,830,689</u>
Total liabilities	<u>4,030,227</u>	<u>337,064</u>	<u>4,367,291</u>
<b>NET POSITION</b>			
Restricted			
Public works	311,921	-	311,921
Debt service	557,160	-	557,160
Unrestricted	<u>(3,480,507)</u>	<u>128,871</u>	<u>(3,351,636)</u>
Total net position	<u>(2,611,426)</u>	<u>128,871</u>	<u>(2,482,555)</u>
Total liabilities and net position	\$ <u>1,418,801</u>	\$ <u>465,935</u>	\$ <u>1,884,736</u>

**CITY OF KINDRED**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenues (Expenses) and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>GOVERNMENTAL ACTIVITIES</b>						
General government	\$ 236,830	\$ 1,100	\$ -	\$ (235,730)	\$ -	\$ (235,730)
Public safety	6,975	-	-	(6,975)	-	(6,975)
Public works	187,763	39,423	-	(148,340)	-	(148,340)
Culture and recreation	49,171	-	-	(49,171)	-	(49,171)
Economic development	29	-	-	(29)	-	(29)
Interest and fees on long-term debt	106,131	-	-	(106,131)	-	(106,131)
Total governmental activities	586,899	40,523	-	(546,376)	-	(546,376)
<b>BUSINESS-TYPE ACTIVITIES</b>						
Water	862,027	265,898	446,443	-	(149,686)	(149,686)
Sewer	14,096	33,053	-	-	18,957	18,957
Other enterprise funds	63,071	59,644	-	-	(3,427)	(3,427)
Total business-type activities	939,194	358,595	446,443	-	(134,156)	(134,156)
Total	\$ 1,526,093	\$ 399,118	\$ 446,443	(546,376)	(134,156)	(680,532)
<b>GENERAL REVENUES</b>						
Taxes						
Property taxes levied for general purposes				795,330	-	795,330
City sales tax for general purposes				174,965	-	174,965
Interest income				5,756	-	5,756
Miscellaneous revenue				98,838	-	98,838
Total general revenues				1,074,889	-	1,074,889
Change in net position				528,513	(134,156)	394,357
Net position - January 1				(3,139,939)	263,027	(2,876,912)
Net position - December 31				\$ (2,611,426)	\$ 128,871	\$ (2,482,555)

See Notes to Financial Statements



**CITY OF KINDRED**  
**BALANCE SHEET – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2018**

	<u>General Fund</u>	<u>City Sales Tax Fund</u>	<u>Street Fund</u>	<u>2017-1 Fund</u>	<u>Truck Route Fund</u>	<u>Other Government Funds</u>	<u>Total Government Funds</u>
<b>ASSETS</b>							
Cash and investments	\$ <u>208,212</u>	\$ <u>397,460</u>	\$ <u>256,250</u>	\$ <u>39,613</u>	\$ <u>374,697</u>	\$ <u>142,569</u>	\$ <u>1,418,801</u>
<b>FUND BALANCES</b>							
Restricted for							
General government	\$ -	\$ 397,460	\$ -	\$ -	\$ -	\$ 3,861	\$ 401,321
Public safety	-	-	-	-	-	-	-
Public works	-	-	256,250	-	-	55,671	311,921
Debt service	-	-	-	39,613	374,697	142,850	557,160
Unassigned	<u>208,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,813)</u>	<u>148,399</u>
Total fund balances	\$ <u>208,212</u>	\$ <u>397,460</u>	\$ <u>256,250</u>	\$ <u>39,613</u>	\$ <u>374,697</u>	\$ <u>142,569</u>	\$ <u>1,418,801</u>

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

<b>Total fund balances for governmental funds</b>	\$ 1,418,801
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Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position - modified cash basis.

Balances at December 31, 2018 are:

Long-term debt	<u>(4,030,227)</u>
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<b>Total net position of governmental activities</b>	<b>\$ <u><u>(2,611,426)</u></u></b>
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**CITY OF KINDRED**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>General Fund</b>	<b>City Sales Tax Fund</b>	<b>Street Fund</b>	<b>2017-1 Fund</b>	<b>Truck Route Fund</b>	<b>Other Government Funds</b>	<b>Total Government Funds</b>
<b>REVENUES</b>							
Taxes	\$ 126,285	\$ 87,483	\$ 35,240	\$ -	\$ -	\$ 141,094	\$ 390,102
Special assessments	-	-	-	105,619	281,687	202,085	589,391
Licenses, permits and fees	4,550	-	740	-	-	250	5,540
Charges for services	-	-	-	-	-	13,034	13,034
Interest	5,229	-	414	-	-	113	5,756
Miscellaneous	46,504	-	25,823	-	-	25,773	98,100
Total revenues	<u>182,568</u>	<u>87,483</u>	<u>62,217</u>	<u>105,619</u>	<u>281,687</u>	<u>382,349</u>	<u>1,101,923</u>
<b>EXPENDITURES</b>							
Current							
General government	133,286	-	-	-	-	3,012	136,298
Public safety	49,310	-	-	-	-	-	49,310
Public works	5,396	-	71,110	137,935	-	5,494	219,935
Culture and recreation	33	-	25,773	-	-	35,898	61,704
Economic development	-	-	-	-	-	31	31
Debt service							
Principal	-	-	-	75,000	210,000	280,712	565,712
Interest and fees	-	-	2,103	23,617	10,334	70,078	106,132
Total expenditures	<u>188,025</u>	<u>-</u>	<u>98,986</u>	<u>236,552</u>	<u>220,334</u>	<u>395,225</u>	<u>1,139,122</u>
Excess (deficiency) of revenues over expenditures	<u>(5,457)</u>	<u>87,483</u>	<u>(36,769)</u>	<u>(130,933)</u>	<u>61,353</u>	<u>(12,876)</u>	<u>(37,199)</u>
<b>OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS</b>							
Long-term debt proceeds	-	-	-	80,898	-	-	80,898
Transfers in	15,242	-	-	-	-	35,818	51,060
Transfers out	-	-	-	-	-	(51,060)	(51,060)
Total other financing sources (uses)	<u>15,242</u>	<u>-</u>	<u>-</u>	<u>80,898</u>	<u>-</u>	<u>(15,242)</u>	<u>80,898</u>
Net change in fund balances	<u>9,785</u>	<u>87,483</u>	<u>(36,769)</u>	<u>(50,035)</u>	<u>61,353</u>	<u>(28,118)</u>	<u>43,699</u>
Fund balances - January 1	<u>198,427</u>	<u>309,977</u>	<u>293,019</u>	<u>89,648</u>	<u>313,344</u>	<u>170,687</u>	<u>1,375,102</u>
Fund balances - December 31	<u>\$ 208,212</u>	<u>\$ 397,460</u>	<u>\$ 256,250</u>	<u>\$ 39,613</u>	<u>\$ 374,697</u>	<u>\$ 142,569</u>	<u>\$ 1,418,801</u>

See Notes to Financial Statements

**CITY OF KINDRED**  
**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES –**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<b>Net change in fund balances - total governmental funds</b>	\$ 43,699
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The change in net position reported for governmental activities in the statement of activities is different because:

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments exceeded proceeds.

Long-term debt proceeds	(80,898)
Repayment of special assessment bonds	<div style="border-top: 1px solid black; display: inline-block;">565,712</div>

<b>Change in net position of governmental activities</b>	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$ 528,513</div>
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**CITY OF KINDRED**  
**STATEMENT OF NET POSITION– MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2018**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>				
Cash and investments	\$ <u>326,356</u>	\$ <u>104,600</u>	\$ <u>34,979</u>	\$ <u>465,935</u>
<b>LIABILITIES</b>				
Long term debt	\$ <u>337,064</u>	\$ <u>-</u>	\$ <u>-</u>	<u>337,064</u>
<b>NET POSITION</b>				
Unrestricted	<u>(10,708)</u>	<u>104,600</u>	<u>34,979</u>	<u>128,871</u>
Total liabilities and net position	\$ <u>326,356</u>	\$ <u>104,600</u>	\$ <u>34,979</u>	\$ <u>465,935</u>

**CITY OF KINDRED**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
<b>OPERATING REVENUES</b>				
Water and sewer operations	\$ 265,898	\$ 33,053	\$ -	\$ 298,951
Garbage and waste operations	-	-	59,644	59,644
Intergovernmental revenue	446,443	-	-	446,443
	<u>712,341</u>	<u>33,053</u>	<u>59,644</u>	<u>805,038</u>
Total operating revenues				
<b>OPERATING EXPENSES</b>				
Salaries and wages	63,141	-	-	63,141
Repairs and maintenance	27,478	8,504	-	35,982
Office expenses	14,175	-	-	14,175
Equipment and technology	553,842	-	-	553,842
Contractual services	87,263	3,192	-	90,455
Utilities	112,937	2,401	63,071	178,409
Debt interest	3,190	-	-	3,190
	<u>862,026</u>	<u>14,097</u>	<u>63,071</u>	<u>939,194</u>
Total operating expenses				
Change in net position	<u>(149,685)</u>	<u>18,956</u>	<u>(3,427)</u>	<u>(134,156)</u>
Net position - January 1	<u>138,977</u>	<u>85,644</u>	<u>38,406</u>	<u>263,027</u>
Net position - December 31	\$ <u><u>(10,708)</u></u>	\$ <u><u>104,600</u></u>	\$ <u><u>34,979</u></u>	\$ <u><u>128,871</u></u>

**CITY OF KINDRED**  
**STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 265,898	\$ 33,053	\$ 59,644	\$ 358,595
Receipts from grants	446,443	-	-	446,443
Payments to suppliers	(795,695)	(14,097)	(63,071)	(872,863)
Payments to employees	<u>(63,141)</u>	<u>-</u>	<u>-</u>	<u>(63,141)</u>
Net cash used by operating activities	<u>(146,495)</u>	<u>18,956</u>	<u>(3,427)</u>	<u>(130,966)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Proceeds from issuance of long-term debt	202,290	-	-	202,290
Payments on long term debt	(15,000)	-	-	(15,000)
Payments on interest	<u>(3,190)</u>	<u>-</u>	<u>-</u>	<u>(3,190)</u>
Net cash provided by capital financing activities	<u>184,100</u>	<u>-</u>	<u>-</u>	<u>184,100</u>
Net increase (decrease) in cash and cash equivalents	<u>37,605</u>	<u>18,956</u>	<u>(3,427)</u>	<u>53,134</u>
Cash and investments - January 1	<u>288,751</u>	<u>85,644</u>	<u>38,406</u>	<u>412,801</u>
Cash and investments - December 31	<u>\$ 326,356</u>	<u>\$ 104,600</u>	<u>\$ 34,979</u>	<u>\$ 465,935</u>

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

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>			
Cash and investments	\$ <u>1,375,102</u>	\$ <u>412,801</u>	\$ <u>1,787,903</u>
<b>LIABILITIES</b>			
Long-term liabilities			
Due within one year			
Long-term debt	\$ 539,858	\$ -	\$ 539,858
Due after one year			
Long-term debt	<u>3,975,183</u>	<u>149,774</u>	<u>4,124,957</u>
Total liabilities	<u>4,515,041</u>	<u>149,774</u>	<u>4,664,815</u>
<b>NET POSITION</b>			
Restricted			
Public safety	9,697	-	9,697
Public works	303,685	-	303,685
Debt service	611,272	-	611,272
Unrestricted	<u>(4,064,593)</u>	<u>263,027</u>	<u>(3,801,566)</u>
Total net position	<u>(3,139,939)</u>	<u>263,027</u>	<u>(2,876,912)</u>
Total liabilities and net position	\$ <u>1,375,102</u>	\$ <u>412,801</u>	\$ <u>1,787,903</u>



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

		Program Revenues		Net Revenues (Expenses) and Changes in Net Position		
		Charges for	Capital	Governmental	Business-type	Total
	Expenses	Services	Grants and Contributions	Activities	Activities	
<b>GOVERNMENTAL ACTIVITIES</b>						
General government	\$ 348,899	\$ 12,450	\$ -	\$ (336,449)	\$ -	\$ (336,449)
Public safety	2,265	-	-	(2,265)	-	(2,265)
Public works	946,097	23,554	-	(922,543)	-	(922,543)
Culture and recreation	42,891	-	-	(42,891)	-	(42,891)
Economic development	138	-	-	(138)	-	(138)
Interest and fees on long-term debt	117,480	-	-	(117,480)	-	(117,480)
Total governmental activities	1,457,770	36,004	-	(1,421,766)	-	(1,421,766)
<b>BUSINESS-TYPE ACTIVITIES</b>						
Water	320,520	214,593	-	-	(105,927)	(105,927)
Sewer	10,638	32,129	-	-	21,491	21,491
Other enterprise funds	55,210	56,616	-	-	1,406	1,406
Total business-type activities	386,368	303,338	-	-	(83,030)	(83,030)
Total	\$ 1,844,138	\$ 339,342	\$ -	(1,421,766)	(83,030)	(1,504,796)
<b>GENERAL REVENUES</b>						
Taxes						
Property taxes levied for general purposes				837,595	-	837,595
City sales tax for general purposes				154,387	-	154,387
Interest income				22,780	-	22,780
Miscellaneous revenue				1,866	-	1,866
Total general revenues				1,016,628	-	1,016,628
Change in net position				(405,138)	(83,030)	(488,168)
Net position - January 1 as previously reported				2,859,692	424,867	3,284,559
Prior period restatement - see Note 8				(5,594,493)	(78,810)	(5,673,303)
Net position - January 1				(2,734,801)	346,057	(2,388,744)
Net position - December 31				\$ (3,139,939)	\$ 263,027	\$ (2,876,912)

See Notes to Financial Statements

**CITY OF KINDRED**  
**BALANCE SHEET – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2017**

	<u>General Fund</u>	<u>City Sales Tax Fund</u>	<u>Street Fund</u>	<u>2017-1 Fund</u>	<u>Truck Route Fund</u>	<u>Other Government Funds</u>	<u>Total Government Funds</u>
<b>ASSETS</b>							
Cash and investments	\$ <u>198,427</u>	\$ <u>309,977</u>	\$ <u>293,019</u>	\$ <u>89,648</u>	\$ <u>313,344</u>	\$ <u>170,687</u>	\$ <u>1,375,102</u>
<b>FUND BALANCES</b>							
Restricted for							
General government	\$ -	\$ 309,977	\$ -	\$ -	\$ -	\$ 20,344	\$ 330,321
Public safety	-	-	-	-	-	9,697	9,697
Public works	-	-	293,019	-	-	10,666	303,685
Debt service	-	-	-	89,648	313,344	208,280	611,272
Unassigned	<u>198,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,300)</u>	<u>120,127</u>
Total fund balances	\$ <u>198,427</u>	\$ <u>309,977</u>	\$ <u>293,019</u>	\$ <u>89,648</u>	\$ <u>313,344</u>	\$ <u>170,687</u>	\$ <u>1,375,102</u>

**CITY OF KINDRED**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**DECEMBER 31, 2017**

<b>Total fund balances for governmental funds</b>	\$ 1,375,102
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Total net position reported for governmental activities in the statement of net position is different because:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position - modified cash basis.

Balances at December 31, 2017 are:

Long-term debt	<u>(4,515,041)</u>
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<b>Total net position of governmental activities</b>	<b>\$ <u><u>(3,139,939)</u></u></b>
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**CITY OF KINDRED**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General Fund</u>	<u>City Sales Tax Fund</u>	<u>Street Fund</u>	<u>2017-1 Fund</u>	<u>Truck Route Fund</u>	<u>Other Government Funds</u>	<u>Total Government Funds</u>
<b>REVENUES</b>							
Taxes	\$ 133,315	\$ 77,193	\$ 51,940	\$ -	\$ 96,933	\$ 176,278	\$ 535,659
Special assessments	-	-	-	111,716	199,960	130,928	442,604
Licenses, permits and fees	1,495	-	-	-	-	471	1,966
Charges for services	-	-	-	-	-	30,722	30,722
Interest	4,899	-	72	-	-	112	5,083
Miscellaneous	1,436	-	-	-	-	21,443	22,879
	<u>141,145</u>	<u>77,193</u>	<u>52,012</u>	<u>111,716</u>	<u>296,893</u>	<u>359,954</u>	<u>1,038,913</u>
Total revenues							
<b>EXPENDITURES</b>							
Current							
General government	141,794	-	-	-	-	10,563	152,357
Public safety	2,265	-	-	-	-	-	2,265
Public works	1,125	-	38,576	943,776	-	157,942	1,141,419
Culture and recreation	564	-	-	-	-	29,787	30,351
Economic development	-	-	-	-	-	135	135
Debt Service							
Principal	-	-	-	75,000	210,000	247,738	532,738
Interest	-	-	-	24,872	15,113	77,538	117,523
	<u>145,748</u>	<u>-</u>	<u>38,576</u>	<u>1,043,648</u>	<u>225,113</u>	<u>523,703</u>	<u>1,976,788</u>
Total expenditures							
Excess (deficiency) of revenues over expenditures	<u>(4,603)</u>	<u>77,193</u>	<u>13,436</u>	<u>(931,932)</u>	<u>71,780</u>	<u>(163,749)</u>	<u>(937,875)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Long-term debt proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>880,030</u>	<u>-</u>	<u>127,900</u>	<u>1,007,930</u>
Net change in fund balance	<u>(4,603)</u>	<u>77,193</u>	<u>13,436</u>	<u>(51,902)</u>	<u>71,780</u>	<u>(35,849)</u>	<u>70,055</u>
Fund balances - January 1	<u>203,030</u>	<u>232,784</u>	<u>279,583</u>	<u>141,550</u>	<u>241,564</u>	<u>206,536</u>	<u>1,305,047</u>
Fund balances - December 31	<u>\$ 198,427</u>	<u>\$ 309,977</u>	<u>\$ 293,019</u>	<u>\$ 89,648</u>	<u>\$ 313,344</u>	<u>\$ 170,687</u>	<u>\$ 1,375,102</u>

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

<b>Net change in fund balances - total governmental funds</b>	\$ 70,055
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The change in net position reported for governmental activities in the statement of activities is different because:

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which payments exceeded proceeds.

Long-term debt proceeds	(1,007,931)
Long-term debt repayments	<u>532,738</u>
<b>Change in net position of governmental activities</b>	<b>\$ <u><u>(405,138)</u></u></b>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and investments	\$ <u>288,751</u>	\$ <u>85,644</u>	\$ <u>38,406</u>	\$ <u>412,801</u>
<b>LIABILITIES</b>				
Long term debt	<u>149,774</u>	<u>-</u>	<u>-</u>	<u>149,774</u>
<b>NET POSITION</b>				
Unrestricted	<u>138,977</u>	<u>85,644</u>	<u>38,406</u>	<u>263,027</u>
Total liabilities and net position	\$ <u>288,751</u>	\$ <u>85,644</u>	\$ <u>38,406</u>	<u>412,801</u>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Water and sewer operations	\$ 214,593	\$ 32,129	\$ -	\$ 246,722
Garbage and waste operations	<u>-</u>	<u>-</u>	<u>56,616</u>	<u>56,616</u>
Total operating revenues	<u>214,593</u>	<u>32,129</u>	<u>56,616</u>	<u>303,338</u>
<b>OPERATING EXPENSES</b>				
Salaries and wages	55,838	814	-	56,652
Repairs and maintenance	14,052	6,325	3,240	23,617
Office expenses	8,684	-	-	8,684
Equipment and technology	5,450	-	-	5,450
Contractual services	133,121	2,115	-	135,236
Utilities	<u>103,375</u>	<u>1,384</u>	<u>51,970</u>	<u>156,729</u>
Total operating expenses	<u>320,520</u>	<u>10,638</u>	<u>55,210</u>	<u>386,368</u>
Change in net position	<u>(105,927)</u>	<u>21,491</u>	<u>1,406</u>	<u>(83,030)</u>
Net position - January 1 as previously reported	323,714	64,153	37,000	424,867
Prior period restatement - see Note 8	<u>(78,810)</u>	<u>-</u>	<u>-</u>	<u>(78,810)</u>
Net position - January 1	<u>244,904</u>	<u>64,153</u>	<u>37,000</u>	<u>346,057</u>
Net position - December 31	<u>\$ 138,977</u>	<u>\$ 85,644</u>	<u>\$ 38,406</u>	<u>\$ 263,027</u>

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

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 214,593	\$ 32,129	\$ 56,616	\$ 303,338
Payments to suppliers	(264,682)	(9,824)	(55,210)	(329,716)
Payments to employees	<u>(55,838)</u>	<u>(814)</u>	<u>-</u>	<u>(56,652)</u>
Net cash provided by operating activities	<u>(105,927)</u>	<u>21,491</u>	<u>1,406</u>	<u>(83,030)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from loans	<u>149,774</u>	<u>-</u>	<u>-</u>	<u>149,774</u>
Net increase in cash and cash equivalents	<u>43,847</u>	<u>21,491</u>	<u>1,406</u>	<u>66,744</u>
Cash and investments - January 1	<u>244,904</u>	<u>64,153</u>	<u>37,000</u>	<u>346,057</u>
Cash and investments - December 31	\$ <u><u>288,751</u></u>	\$ <u><u>85,644</u></u>	\$ <u><u>38,406</u></u>	\$ <u><u>412,801</u></u>



**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations***

The City of Kindred, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Kindred, 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. Records are not maintained for capital assets. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. 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.

***Financial Reporting Entity***

The accompanying financial statements present the activities of the City of Kindred (“City”). The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criterion includes appointing a voting majority of an organization’s governing body and (1) the ability of the City of Kindred 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 Kindred.

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

***Basis of Presentation***

*Government-wide Financial Statements:* The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the primary government of the City of Kindred. Eliminations have been made to minimize the double counting of internal activities. 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 services.

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 or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City’s funds. Separate statements for each fund category *governmental* and *proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

The City reports the following major governmental funds:

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

**Street Fund** - This special revenue fund accounts for revenue and expenditures related to streets, including payroll-related costs. This fund's primary revenue source is from the state highway tax.

**2017-1 Fund** - This is the City's fund to enhance the Sheyenne Street area and improve street infrastructure in Newport Ridge.

**Truck Route Fund** - This is the City's fund that supports the planning, development, and maintenance of truck routes.

**City Sales Tax Fund** - This fund includes all of the City's sales taxes received to pay for infrastructure improvements, economic development, job creation, and business retention, expansion, and recruitment.

The City reports the following major enterprise funds:

**Water Fund** - This fund accounts for the activity of the water department. The department operates the water distribution system of the City of Kindred.

**Sewer Fund** - This fund accounts for the activities of the sewer department. This department operated the sewage treatment plant, sewage pumping stations and collection systems in the City of Kindred.

***Measurement Focus and Basis of Accounting***

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item (b) below.

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

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

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets, and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

***Cash and Investments***

Cash includes amounts in demand deposits and certificates of deposit with original maturities less than 90 days, stated at cost.

Investments consist of certificates of deposit, with an original maturity date in excess of 90 days, stated at book value plus any interest earned.

***Due from (to) Other Funds***

Due from (to) other funds arise primarily as a result of a cash deficit in one or more funds. These liabilities are expected to be eliminated within one year through future revenues and transfers.

***Fund Balances – Governmental Funds***

Fund equity at the governmental fund financial reporting level is classified as “fund balance.” Fund equity for all other reporting is classified as “net position.”

***Fund Balance*** – Generally, the fund balance represents the difference between current assets and current liabilities. In the fund financial statements, the governmental funds report fund classification that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds are spent. Fund balances are classified as follows:

***Nonspendable*** – Fund balances that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

***Restricted*** – Constraints are placed on the use of fund balances which are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

***Committed*** – Committed fund balances 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 governing board. Formal action is required to rescind a fund balance commitment.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

***Assigned*** – Assigned fund balances are amounts that are constrained by the government’s intent to be used for specific purposes but are under the direction of the board and the City’s management.

***Unassigned*** – Unassigned fund balances are those that have not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance.

At December 31, 2018 and 2017, the City only had restricted and unassigned fund balances. Restricted fund balances were constrained by state laws related to specific tax levies and highway tax distributions, as well as provisions of debt covenants.

***Net Position*** – Net position represents the difference between assets and liabilities. Net positions are classified in the following categories:

***Restricted Net Position*** – This amount is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

***Unrestricted Net Position*** – This amount is the net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

As of December 31, 2018 and 2017, the City had \$869,081 and \$924,654, respectively, in restricted net position, which are restricted by state laws regarding use of tax levies and state revenues.

***Flow Assumptions*** – When both restricted and unrestricted amounts of fund balances are available for use for expenditures incurred, it is the City’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the City’s policy to first use restricted, then committed, then assigned, and then unassigned resources as they are needed.

***Interfund Transactions***

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

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

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

**NOTE 2 – DEPOSITS**

In accordance with North Dakota Statutes, the City of Kindred maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System. Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

At years ended December 31, 2018 and 2017, the City's carrying amount of deposits were \$1,884,736 and \$1,787,903, respectively, and the bank balances were \$1,912,644 and \$1,805,874, respectively. Of the bank balances, for each institution, \$250,000 was covered by Federal Depository Insurance at December 31, 2018 and 2017. The remaining bank balances at December 31, 2018 were covered by securities pledged by the financial institution in the City's name.

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Beyond what is stated in the North Dakota Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk for deposits and investments. As noted above, the City's deposits were all either fully insured or collateralized.

***Investments***

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

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation.
- d) Investments in money market accounts.
- e) Obligations of the state.

As outlined above, North Dakota Century Code limits the type of investments allowed to reduce the amount of credit risk to the portfolio. The chart below summarizes the credit quality of the City's investment holdings.

<b>INVESTMENT TYPE</b>	<u><b>12/31/2018</b></u>	<u><b>12/31/2017</b></u>
Certificate of deposit	\$ <u>151,413</u>	\$ <u>131,388</u>

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The chart below summarizes the City's investments using segmented time distribution. North Dakota Century Code limits investing funds primarily in short- and intermediate-term liquid securities of high credit quality to ensure adequate liquidity and to minimize the impact of changes in interest rates. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3 – TRANSFERS**

For the years ended December 31, 2018 and 2017, the City had the following transfers:

	<u>2018</u>	<u>2017</u>
Transfer in		
General fund	\$ 15,242	\$ -
City hall	7,469	-
Planning and zoning	4,000	-
Retirement levy	6,730	-
Memorial building	17,619	-
	<u>51,060</u>	<u>-</u>
Total	\$ <u>51,060</u>	\$ <u>-</u>
Transfer out		
Social Security	\$ 30,176	\$ -
Emergency	9,697	-
Economic development	4,829	-
Museum	15	-
Braaten Cabinets	6,343	-
	<u>51,060</u>	<u>-</u>
Total	\$ <u>51,060</u>	\$ <u>-</u>

The purpose of the transfers in both 2017 and 2018 was to close out funds that the City is no longer using as well as allocating property tax revenues and special assessments that are collected to pay off outstanding bonds.

**NOTE 4 – LONG-TERM LIABILITIES**

*Changes in Long-Term Liabilities*

**Government Activities**

During the years ended December 31, 2018, and 2017, the following changes occurred in the long-term liabilities for governmental activities:

	<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Special assessment bonds	\$ 3,340,000	\$ 880,030	\$ 495,000	\$ 3,725,030	\$ 500,000
Notes payable	699,849	127,900	37,738	790,011	39,858
	<u>\$ 4,039,849</u>	<u>\$ 1,007,930</u>	<u>\$ 532,738</u>	<u>\$ 4,515,041</u>	<u>\$ 539,858</u>
	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/18</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Special assessment bonds	\$ 3,725,030	\$ 80,898	\$ 500,000	\$ 3,305,928	\$ 495,000
Notes payable	790,011	-	65,712	724,299	41,602
	<u>\$ 4,515,041</u>	<u>\$ 80,898</u>	<u>\$ 565,712</u>	<u>\$ 4,030,227</u>	<u>\$ 536,602</u>

(Continued)

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**Business-Type Activities (Proprietary Funds)**

During the years ended December 31, 2018, and 2017, the following changes occurred in the long-term liabilities for business-type activities:

	<u>Balance 1/1/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>	<u>Due Within One Year</u>
<b>Business-type Activities (proprietary funds):</b>					
Special revenue bonds	\$ <u>-</u>	\$ <u>149,774</u>	\$ <u>-</u>	\$ <u>149,774</u>	\$ <u>-</u>
	<u>Balance 1/1/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/18</u>	<u>Due Within One Year</u>
<b>Business-type activities (proprietary funds):</b>					
Special revenue bonds	\$ <u>149,774</u>	\$ <u>202,290</u>	\$ <u>15,000</u>	\$ <u>337,064</u>	\$ <u>-</u>

**Special Revenue Bonds**

The City issued a special revenue bond, for the construction of their water tower. The bond will be repaid from the water user billings received.

The special revenue bond at December 31 is comprised as follows:

	<u>2018</u>	<u>2017</u>
\$539,663 of special revenue bonds of 2003 Series A due in annual installments of \$25,000 to \$27,000 through September 1, 2047; interest at 1.5% and 2.0%	\$ <u>337,064</u>	\$ <u>149,774</u>

The 2003 Series A Improvement Bond debt service requirements to maturity is as follows:

	<b>Total of 2003 Series A Improvement Bond</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 19,663	\$ 7,993	\$ 27,656
2022	15,000	7,800	22,800
2023	15,000	7,575	22,575
2024	15,000	7,350	22,350
2025	15,000	7,125	22,125
2026-2030	47,563	32,175	79,738
2031-2035	55,957	25,125	81,082
2036-2040	55,957	17,625	73,582
2041-2045	69,946	9,375	79,321
2046-2047	<u>27,978</u>	<u>1,125</u>	<u>29,103</u>
	\$ <u>337,064</u>	\$ <u>123,268</u>	\$ <u>460,332</u>

The debt schedule for the special revenue fund does not begin until 2021. The City made an early principal payment for \$15,000 during fiscal year 2018. Additionally, the city received subsequent funds in 2019 totaling \$539,663.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**Special Assessment Bonds**

The City issues special assessment bonds for various projects. These bonds will be repaid from debt service or capital projects funds by amounts levied against the property owners benefited by the project.

Special assessment bonds at December 31 are comprised of the following individual issues:

	<u>2018</u>	<u>2017</u>
\$190,000 of refunding improvement bonds of 2007 due in annual installments of \$10,000 to \$15,000 through May 1, 2022; interest at 4.375% and 4.8%	\$ 40,000	\$ 50,000
\$350,000 of refunding improvement bonds of 2010 due in annual installments of \$35,000 to \$40,000 through May 1, 2019; interest at 1.75-3.75%	40,000	80,000
\$1,890,000 of refunding improvement bonds of 2011 due in annual installments of \$50,000 to \$250,000 through May 1, 2021; interest at 0.7-2.25%	305,000	515,000
\$560,000 of refunding improvement bonds of 2013 due in annual installments of \$15,000 to \$40,000 through May 1, 2026; interest at 1.1-3.5%	385,000	425,000
\$1,075,000 of refunding improvement bonds of 2014 due in annual installments of \$30,000 to \$90,000 through May 1, 2028; interest at 0.65-3.2%	820,000	895,000
\$845,000 of refunding improvement bonds of 2015 due in annual installments of \$50,000 to \$65,000 through May 1, 2029; interest at 0.55% to 3.0%	685,000	740,000
\$205,000 of state revolving fund bonds of 1999 due in annual installments of \$65,000 to \$70,000 through September 1, 2019; interest at 2.5%	70,000	140,000
\$1,420,000 of definitive improvement bonds of 2017 due in annual installments of \$50,000 to \$60,000 through May 1, 2044; interest at 2.0%	<u>960,927</u>	<u>880,029</u>
Total special assessment bonds	\$ <u><u>3,305,927</u></u>	\$ <u><u>3,725,029</u></u>



**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

Refunding Improvement bonds debt service requirements to maturity are as follows:

	<b>Total Special Assessment Bond</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 495,000	\$ 11,400	\$ 506,400
2020	246,856	15,052	261,908
2021	269,221	26,472	295,693
2022	229,912	24,898	254,810
2023	220,617	24,039	244,656
2024	221,336	23,320	244,656
2025-2029	1,012,980	103,979	1,116,959
2030-2039	448,925	95,979	544,904
2040-2044	161,082	12,006	173,088
	<u>\$ 3,305,929</u>	<u>\$ 337,145</u>	<u>\$ 3,643,074</u>

Interest paid on the bonds during 2018 and 2017 totaled \$106,132 and \$117,532 respectively, all of which was charged to interest expense.

**NOTE 5 – FUND DEFICITS**

The following funds were in a deficit fund balance or net position at December 31:

	<b>2018</b>	<b>2017</b>
<b>OTHER GOVERNMENTAL FUNDS</b>		
Share of City specials	\$ (661)	\$ (1,562)
City hall	-	(7,469)
Planning and zoning	(1,873)	(1,109)
Economic development	(58)	-
Airport authority	(2,008)	(2,005)
Compost / forestry	(11,378)	(7,235)
Retirement levy	-	(6,730)
Memorial building	-	(12,221)
MDU Foundation	(6,200)	(6,200)
Pool construction	(158,106)	(158,106)
County 15	(66,500)	(36,413)
2014-2 NPR	(24,180)	(12,304)

These deficits are anticipated to be remediated by future transfers.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**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 5.00% 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 – RISK MANAGEMENT**

The City of Kindred 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 public assets insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to one million dollars for public assets coverage.

The City of Kindred 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 the City of Kindred with blanket fidelity bond coverage in the amount of \$1,000,000 for the City employees.

The City has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides single 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.

**CITY OF KINDRED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 8 – CORRECTION OF ERROR**

The 2017 beginning net position fund balance amount has been restated to adjust for fixed property, plant, and equipment and long-term debt that had been previously recorded, but no records were kept to continue reporting. This resulted in an adjustment to the January 1, 2017, net position as follows:

<b>Statement of activities - modified cash basis</b>	<b><u>Governmental Activities</u></b>
Beginning of year net position, as previously reported	\$ 2,859,692
Restatement to remove property, plant, and equipment	(5,595,098)
Restatement for beginning long-term debt	<u>605</u>
Beginning of year net position, as restated	\$ <u><u>(2,734,801)</u></u>
	<b><u>Business-type Activities</u></b>
Beginning of year net position, as previously reported	\$ 424,867
Restatement to remove property, plant, and equipment	<u>(78,810)</u>
Beginning of year net position, as restated	\$ <u><u>346,057</u></u>
	<b><u>Proprietary Funds Business-type Activities-</u></b>
<b>Statement of revenues, expenses and changes in net position - modified cash basis</b>	
Beginning of year net position, as previously reported	\$ 424,867
Restatement to remove property, plant, and equipment	<u>(78,810)</u>
Beginning of year net position, as restated	\$ <u><u>346,057</u></u>

**NOTE 9 – SUBSEQUENT EVENTS**

During 2017 and 2018, the City received long-term debt proceeds totaling \$149,774 and \$202,290, respectively, from the Drinking Water State Revolving Fund as Refunding Improvement Bonds of 2003 Series A. In 2019, additional proceeds were received, resulting in a total bond amount of \$539,663. Principal payments on this bond are scheduled to commence in 2021. These proceeds were utilized to successfully complete the Water Tower Project, which was finalized by the City in 2019.

The City has evaluated subsequent events through September 4, 2024, the date which the financial statements were available to be issued.

# **CITY OF KINDRED**

**SUPPLEMENTAL SCHEDULES  
DECEMBER 31, 2018 AND 2017**

**CITY OF KINDRED**  
**SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance 12/31/17</u>	<u>Receipts</u>	<u>Transfers In</u>	<u>Financing Sources</u>	<u>Transfers Out</u>	<u>Disbursements</u>	<u>Balance 12/31/18</u>
<b>MAJOR GOVERNMENTAL FUNDS</b>							
General fund	\$ 198,427	\$ 182,568	\$ 15,242	\$ -	\$ -	\$ 188,025	\$ 208,212
<u>Special revenue funds: - major fund</u>							
City sales tax	309,977	87,482	-	-	-	-	397,459
Street	293,019	62,217	-	-	-	98,986	256,250
Total	602,996	149,699	-	-	-	98,986	653,709
<u>Total debt service funds - major fund</u>							
2017-1 NP Phase 3	(63,747)	-	-	80,898	-	128,635	(111,484)
2017-1	153,395	105,619	-	-	-	107,917	151,097
Truck route project 2006	313,344	281,687	-	-	-	220,334	374,697
Total	402,992	387,306	-	80,898	-	456,886	414,310
<b>NONMAJOR GOVERNMENTAL FUNDS</b>							
Social Security	30,176	-	-	-	30,176	-	-
Share of City specials	(1,562)	901	-	-	-	-	(661)
City Hall	(7,469)	-	7,469	-	-	-	-
Planning and zoning	(1,110)	(1,722)	4,000	-	-	3,041	(1,873)
Library	1,138	(205)	-	-	-	-	933
Emergency	9,697	-	-	-	9,697	-	-
Economic development	4,829	(58)	-	-	4,829	-	(58)
Airport authority	(2,005)	(3)	-	-	-	-	(2,008)
Compost / forestry	(7,234)	5,456	-	-	-	9,600	(11,378)
Retirement levy	(6,730)	6,696	6,730	-	-	-	6,696
Memorial building	(12,221)	6,282	17,619	-	-	5,498	6,182
Museum	15	-	-	-	15	-	-
Highway tax	-	18,181	-	-	-	-	18,181
Braaten Cabinets	6,343	113	-	-	6,343	-	113
Pool	46,624	22,690	-	-	-	31,071	38,243
Pool operations	36,115	98,787	-	-	-	67,932	66,970
Equipment reserve	30,107	33,351	-	-	-	20,772	42,686
MDU Foundation	(6,200)	-	-	-	-	-	(6,200)
Pool construction	(158,106)	-	-	-	-	-	(158,106)
2004-1 Bond	10,082	-	-	-	-	-	10,082
Bond sewer project	131,743	56,726	-	-	-	74,025	114,444
Bond Viking	46,347	36,494	-	-	-	43,351	39,490
Agassiz Estates	68,825	13,962	-	-	-	13,273	69,514
County 15	(36,413)	22,933	-	-	-	53,020	(66,500)
2014-2 NPR	(12,304)	61,765	-	-	-	73,641	(24,180)
Total	170,687	382,349	35,818	-	51,060	395,224	142,570
<b>TOTAL GOVERNMENTAL FUNDS</b>	<u>\$ 1,375,102</u>	<u>\$ 1,101,922</u>	<u>\$ 51,060</u>	<u>\$ 80,898</u>	<u>\$ 51,060</u>	<u>\$ 1,139,121</u>	<u>\$ 1,418,801</u>

(Continued)

**CITY OF KINDRED**  
**SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Balance 12/31/17</u>	<u>Receipts</u>	<u>Transfers In</u>	<u>Other Financing Sources</u>	<u>Transfers Out</u>	<u>Disbursements</u>	<u>Balance 12/31/18</u>
<b>MAJOR ENTERPRISE FUNDS</b>							
Water	\$ 297,051	\$ 265,898	\$ -	\$ -	\$ -	\$ 220,007	\$ 342,942
Water tower 2016-1	(158,345)	446,443	-	-	-	642,020	(353,922)
Water reservoir	272	-	-	-	-	-	272
Sewer	130,545	33,053	-	-	-	14,096	149,502
Sewer	(44,901)	-	-	-	-	-	(44,901)
	<u>224,622</u>	<u>745,394</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>876,123</u>	<u>93,893</u>
Total							
<b>NONMAJOR ENTERPRISE FUNDS</b>							
Surcharge	9,782	-	-	-	-	-	9,782
Garbage	28,624	59,644	-	-	-	63,071	25,197
	<u>38,406</u>	<u>59,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,071</u>	<u>34,979</u>
Total							
<b>TOTAL ENTERPRISE FUNDS</b>	\$ <u>263,028</u>	\$ <u>805,038</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>939,194</u>	\$ <u>128,872</u>
<b>TOTAL REPORTING ENTITY</b>	\$ <u>1,638,130</u>	\$ <u>1,906,960</u>	\$ <u>51,060</u>	\$ <u>80,898</u>	\$ <u>51,060</u>	\$ <u>2,078,315</u>	\$ <u>1,547,673</u>

**CITY OF KINDRED**  
**SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

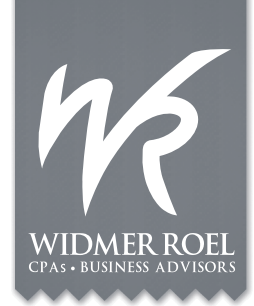
	<u>Balance 12/31/16</u>	<u>Receipts</u>	<u>Loan Proceeds</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Disbursements</u>	<u>Balance 12/31/17</u>
<b>MAJOR GOVERNMENTAL FUNDS</b>							
General fund	\$ 203,030	\$ 141,145	\$ -	\$ -	\$ -	\$ 145,748	\$ 198,427
<u>Special Revenue Funds: - major fund</u>							
City Sales Tax	232,784	77,193	-	-	-	-	309,977
Street	279,583	52,012	-	-	-	38,576	293,019
Total	512,367	129,205	-	-	-	38,576	602,996
<u>Debt Service Funds: - major fund</u>							
2017-1 NP Phase 3	-	-	880,030	-	-	943,777	(63,747)
2017-1	141,550	111,716	-	-	-	99,871	153,395
Truck Route Proj. 2006	241,564	296,893	-	-	-	225,113	313,344
Total	\$ 383,114	\$ 408,609	\$ 880,030	\$ -	\$ -	\$ 1,268,761	\$ 402,992
<b>NONMAJOR GOVERNMENTAL FUNDS</b>							
Social Security	\$ 30,049	\$ 127	\$ -	\$ -	\$ -	\$ -	\$ 30,176
Share of City specials	(11,981)	10,419	-	-	-	-	(1,562)
City hall	(2,375)	91	-	-	-	5,185	(7,469)
Planning and zoning	(353)	458	-	-	-	1,214	(1,109)
Library	1,075	63	-	-	-	-	1,138
Emergency	9,697	-	-	-	-	-	9,697
Economic development	4,797	32	-	-	-	-	4,829
Airport authority	(2,001)	(4)	-	-	-	-	(2,005)
Compost / forestry	(5,844)	3,584	-	-	-	4,975	(7,235)
Retirement levy	(3,257)	127	-	-	-	3,600	(6,730)
Memorial building	(9,674)	-	-	-	-	2,547	(12,221)
Museum	15	-	-	-	-	-	15
Highway tax	-	-	-	-	-	-	-
Braaten Cabinets	(11,466)	17,809	-	-	-	-	6,343
Pool	44,889	23,032	-	-	-	21,297	46,624
Pool operations	17,651	87,166	-	-	-	68,702	36,115
Equipment reserve	23,163	7,918	127,900	-	-	128,874	30,107
MDU Foundation	-	-	-	-	-	6,200	(6,200)
Pool construction	(158,106)	-	-	-	-	-	(158,106)
2004-1 Bond	9,775	307	-	-	-	-	10,082
Bond sewer project	141,734	60,997	-	-	-	70,988	131,743
Bond Viking	40,172	51,080	-	-	-	44,905	46,347
Agassiz Estates	43,241	39,391	-	-	-	13,807	68,825
County 15	(7,979)	25,105	-	-	-	53,539	(36,413)
2014-2 NPR	53,315	32,252	-	-	-	97,871	(12,304)
Total	206,537	359,954	127,900	-	-	523,704	170,687
<b>TOTAL GOVERNMENTAL FUNDS</b>	\$ 1,305,048	\$ 1,038,913	\$ 1,007,930	\$ -	\$ -	\$ 1,976,789	\$ 1,375,102

(Continued)

**CITY OF KINDRED**  
**SCHEDULE OF FUND ACTIVITY ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Balance 12/31/16</u>	<u>Receipts</u>	<u>Loan Proceeds</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Disbursements</u>	<u>Balance 12/31/17</u>
<b>MAJOR ENTERPRISE FUNDS</b>							
Water	\$ 259,588	\$ 214,593	\$ -	\$ -	\$ -	\$ 177,130	\$ 297,051
Water tower 2016-1	(14,956)	-	-	-	-	143,389	(158,345)
Water reservoir	272	-	-	-	-	-	272
Sewer	109,054	32,129	-	-	-	10,638	130,545
Sewer	<u>(44,901)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,901)</u>
Total	<u>309,057</u>	<u>246,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>331,157</u>	<u>224,622</u>
<b>NONMAJOR ENTERPRISE FUNDS</b>							
Surcharge	9,782	-	-	-	-	-	9,782
Garbage	<u>27,218</u>	<u>56,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,210</u>	<u>28,624</u>
Total	<u>37,000</u>	<u>56,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,210</u>	<u>38,406</u>
<b>TOTAL ENTERPRISE FUNDS</b>	<u>\$ 346,057</u>	<u>\$ 303,338</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 386,367</u>	<u>\$ 263,028</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 1,651,105</u>	<u>\$ 1,342,251</u>	<u>\$ 1,007,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,363,156</u>	<u>\$ 1,638,130</u>





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**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**

To the City Council  
**City of Kindred**  
Kindred, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the business-type activities of the **City of Kindred** as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which when combined with the major fund and aggregate remaining fund information, collectively comprise **City of Kindred's** basic financial statements, and have issued our report thereon dated September 4, 2024. Our report expressed a qualified opinion on these financial statements due to management not recording capital assets in the governmental activities, the business-type activities, and the major proprietary fund, and, accordingly, has not recorded depreciation expense on those assets.

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund, and the aggregate remaining fund information of **City of Kindred** as of and for the years ended December 31, 2018, and 2017. We issued our report as a disclaimer of opinion on such financial statements because the financial accounting software is not designed for fund accounting; therefore, the accounting software does not fully allocate fund level receipts, disbursements and changes in fund balance.

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 this matter.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered **City of Kindred's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **City of Kindred's** internal control. Accordingly, we do not express an opinion on the effectiveness of **City of Kindred's** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control described in the accompanying schedule of findings and responses, that we consider to be material weaknesses: 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, and 2018-007.

### ***Compliance and Other Matters***

In connection with our engagement to audit the financial statements of the **City of Kindred** 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-008.

### ***City of Kindred's Response to Findings***

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

### ***Purpose of this Report***

The purpose of this report is intended 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 engagement to perform an audit 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.



Fargo, North Dakota  
September 4, 2024

**CITY OF KINDRED**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2018 AND 2017**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued:

Governmental activities	Qualified– modified cash basis
Business-type activities	Qualified – modified cash basis
Major governmental funds	Disclaimer – modified cash basis
Major proprietary fund	Disclaimer – modified cash basis
Aggregate remaining fund information	Disclaimer – modified cash basis

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>      </u> yes	<u>  X  </u> none reported

Noncompliance material to financial statements noted?

<u>  X  </u> yes	<u>      </u> no
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**CITY OF KINDRED**  
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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**FINDING 2018-001 (MATERIAL WEAKNESS) - CAPITAL ASSET RECORDS**

**Condition**

The City of Kindred (the “City”) does not maintain capital asset records sufficient for financial reporting purposes under *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments* (“GASB 34”). Furthermore, the City does not have a formal capital asset policy which includes a capitalization threshold, useful lives, and depreciation methods.

**Criteria**

Accounting principles generally accepted in the United States of America require the financial statements include the capital assets, net of accumulated depreciation. GASB 34 requires that capital asset records include infrastructure constructed after January 1, 2004.

**Cause**

The City has not deemed it a priority to establish a capital asset policy for financial reporting purposes, as that is not required by users of its financial statements.

**Effect**

The omission of capital assets from the financial statements results in an incomplete presentation of the City of Kindred’s financial statements and an adverse audit opinion on the governmental activities, the business-type activities, and the major proprietary fund.

**Recommendation**

We recommend that the City adopt a capital asset policy, which serves as a guideline for financial reporting of capital assets. We further recommend that the City prepare a schedule of capital assets, which will allow the City to determine the useful lives and annual depreciation expense or determine if the City should implement the modified approach for infrastructure. This is a repeat recommendation.

**Views of Responsible Officials**

The City Auditor will work with office staff to create a capitalization policy that can be presented to the City Council for approval. Then the City Auditor can work to identify assets purchased in prior years and take steps to prepare a depreciation schedule.

**CITY OF KINDRED**  
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**FINDING 2018-002 (MATERIAL NONCOMPLIANCE) – USE OF CAPITAL PROJECTS FUNDS**

**Condition**

It was noted that some of the City’s capital projects funds are being utilized to make debt service payments.

**Criteria**

Bond covenants and NDCC 21-03-08 require bond proceeds to be kept in a fund “separate and distinct from all other funds, to be used for the purpose for which it was borrowed.” Bond covenants and NDCC 21-03 refer to the creation of a bond fund or sinking fund, “separate and apart from all other funds of the issuer,” to which special assessments should be deposited and from which bond principal and interest payments should be made.

**Cause**

The City’s underutilization of accounting software hinders the generation of a complete trial balance for efficient external financial reporting.

**Effect**

Special assessments may be improperly used for purposes other than those for which they were levied. Furthermore, the City may be out of compliance with NDCC 21-03-08 and various debt covenants.

**Recommendation**

We recommend that, for each new improvement project, the City establish both a separate capital projects fund and a separate debt service fund. The bond proceeds should be deposited in the capital projects fund and used only for the purposes for which it was borrowed (i.e., construction and related costs). When the project is complete, any remaining funds should be transferred into the debt service fund.

All special assessments levied for the specific project should be deposited into the debt service fund, and all debt principal and interest payments should be made from the debt service fund.

We further recommend that the City evaluate its current existing funds. It is likely that some of the funds currently classified as capital projects funds are more accurately described as debt service funds for financial reporting purposes.

**Views of Responsible Officials**

The City is implementing this process going forward.

**FINDING 2018-003 (MATERIAL WEAKNESS) - SEGREGATION OF DUTIES**

**Condition**

We believe the limited number of personnel prevents a proper segregation of duties to ensure adequate internal control.

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**Criteria**

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting and reconciliation.

**Cause**

Due to the size of the City, it is not practical to have sufficient staff to ensure adequate segregation of approval, custody of assets, posting, and reconciliation.

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud.

**Recommendation**

We recommend that management be aware of the lack of segregation of duties and implement controls wherever possible to mitigate this risk. This is a repeat recommendation.

**Views of Responsible Officials**

The City is aware of this weakness; however, it is not practical at this time to hire sufficient staff to segregate duties. The City Auditor will discuss with the Council moving forward.

**FINDING 2018-004 (MATERIAL WEAKNESS) – MATERIAL AUDIT ADJUSTMENTS**

**Condition**

During testing of the beginning fund balances, it was noted that the City did not record the prior year proposed audit adjustments and some of the current year transactions were posted directly to fund balance. It was also noted that there was only one general ledger cash account which caused certain transactions to be posted across funds.

**Criteria**

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a control to identify that the City's transactions are balanced by fund.

**Cause**

The City's underutilization of accounting software hinders the generation of a complete trial balance for efficient external financial reporting.

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud.

**CITY OF KINDRED**  
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**Recommendation**

We recommend that the City creates general ledger cash accounts for all of the City's funds to properly track the revenue and expenses that are being recorded in those funds, instead of posting directly to fund balance of the General Fund cash account.

We also recommend that the City evaluate their current accounting software and explore potential options that include financial reporting to provide all users with meaningful reports.

**Views of Responsible Officials**

The City is aware of the transactions crossing funds in the accounting software and believe that the City's operations have outgrown the software. The City is looking to purchase new software that is more compatible with the City's operations.

**FINDING 2018-005 (MATERIAL WEAKNESS) – FINANCIAL STATEMENT PREPARATION**

**Condition**

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the council. However, Widmer Roel PC assists management in preparing financial statements that are presented, including note disclosures, on the modified cash basis of accounting.

**Criteria**

As a matter of internal control, management should be responsible and capable of preparing financial statements in conformity with generally accepted accounting principles, or as applicable, another comprehensive basis of accounting.

**Cause**

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

**Effect**

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

**Recommendation**

We recommend 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. This is a repeat recommendation.

**Views of Responsible Officials**

The City has noted this as a control weakness.

**CITY OF KINDRED**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
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**FINDING 2018-006 (MATERIAL WEAKNESS) – USE OF FINANCIAL STATEMENT SOFTWARE**

**Condition**

The City's underutilization of accounting software hinders the generation of a complete trial balance for efficient external financial reporting.

**Criteria**

To enhance internal control and prevent material misstatements, the City should record all financial operations, including fund and account numbers, in the financial statements for efficient external reporting.

**Cause**

The City is not fully utilizing its accounting software.

**Effect**

The City faces an elevated risk of misstated financial statements (both internal and external) due to omissions or errors arising from inadequate utilization of the accounting software.

**Recommendation**

To enhance internal control over financial reporting and mitigate the risk of material misstatements due to errors or fraud, we recommend that the City comprehensively record all financial operations in the financial statements, including fund and account numbers. This practice will facilitate efficient external financial reporting. Additionally, the City should consider evaluating external consultation or exploring alternative accounting software solutions to address any capacity limitation.

**Views of Responsible Officials**

The City has noted this as a control weakness and has purchased different software.

**FINDING 2018-007 (MATERIAL WEAKNESS) – LACK OF INFORMATION TECHNOLOGY POLICY**

**Condition**

The City does not have a policy in place for IT (Information Technologies) controls over passwords, backups, firewalls, disaster recovery procedures, or cybersecurity insurance.

**Criteria**

To ensure adequate internal control over financial reporting and data storage and prevent material misstatements due to errors or fraud, there should be an IT Policy that ensures there are adequate protections over passwords, backups, firewalls, disaster recovery.



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**Cause**

Due to the size of the city, there is no dedicated IT functions. As the city is small, they do not have experience dealing with cybersecurity and IT issues.

**Effect**

The financial statements are susceptible to misstatements due to errors or fraud.

**Recommendation**

We recommend that management be aware of IT Policies and duties and implement controls wherever possible to mitigate this risk.

**Views of Responsible Officials**

The City is aware of this weakness and has taken steps to implement an IT Policy and control measures to mitigate risk.

**FINDING 2018-008 (MATERIAL WEAKNESS) – BUDGET FOR GOVERNMENT FUNDS**

**Condition**

The City does not include cash in budgeted amounts for debt service funds and some general fund accounts in its budget-to-actual financial statements. Furthermore, the City overspent some of its budgeted funds during 2017 and 2018.

**Criteria**

NDCC 40-40-05 requires municipalities to budget for the general fund, each special revenue fund, and each debt service fund.

NDCC 40-40-05 requires municipalities to budget for any transfers in or out of each fund.

Furthermore, NDCC 40-40-15 provides for joint and several liability for city council members for overspent budgets.

**Cause**

The City has a budget but was not able to show sufficient support for their calculation.

**Effect**

The city may be in violation of NDCC 40-40-15, and the city council exposes itself to potential joint and several liability for any overspent budgets.

The City's financial statements are exposed to an increased risk of errors and fraud related to expenditures.

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**Recommendation**

We recommend that the city budget for all funds required by NDCC 40-40-05. We recommend that the budgetary information for all funds be provided with the City's financial statements for review and approval of responsible officials. We further recommend that the governing board amend the budget for any funds to be overspent.

**Views of Responsible Officials**

The City will begin budgeting for all funds and inter-fund transfers.