

CITY OF FORMAN
Forman, North Dakota

AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2020

CITY OF FORMAN
Forman, North Dakota

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CITY OF FORMAN
Forman, North Dakota

OFFICIAL DIRECTORY
December 31, 2020

Kevin Bopp	Mayor
Luke Anderson	Council Member
Al Colemer	Council Member
Neil Weaving	Council Member
John Stenvold	Council Member
Trish Pearson	City Auditor



INDEPENDENT AUDITOR'S REPORT

City Council
City of Forman
Forman, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Forman, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Forman's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Forman's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the City of Forman, as of December 31, 2020 and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forman's basic financial statements. The budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules 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. In our opinion, the budgetary comparison schedules are fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Information

The Official Directory has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

As discussed in Note 10 to the financial statements, there were errors in capital assets as of December 31, 2019 that were discovered by management in the current year. Accordingly, an adjustment has been made to net position as of December 31, 2019 to correct the error. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2021 on our consideration of the City of Forman's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Forman's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, ND
October 20, 2021

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF NET POSITION – MODIFIED CASH BASIS
December 31, 2020

	Governmental Activities	Business-type Activities	Total	Forman Library	Forman Housing
ASSETS					
Cash and Cash Equivalents	\$ 1,130,252	\$ 312,967	\$ 1,443,219	\$ 11,106	\$ 25,496
Savings and CD's	88,882	50,000	138,882	-	7,012
Loan Receivable	63,828	-	63,828	-	-
Capital Assets					
Non-depreciable					
Land	80,514	-	80,514	-	6,000
Depreciable, net of accumulated depreciation					
Buildings and Improvements	182,839	4,327	187,166	-	969,000
Vehicles	14,786	12,676	27,462	-	-
Equipment	84,309	-	84,309	-	-
Infrastructure	1,921,840	3,156,832	5,078,672	-	-
Total Capital Assets	<u>2,284,288</u>	<u>3,173,835</u>	<u>5,458,123</u>	<u>-</u>	<u>975,000</u>
Total Assets	3,567,250	3,536,802	7,104,052	11,106	1,007,508
LIABILITIES					
Deposits	-	-	-	-	6,975
Current Debt - due within one year					
Bonds Payable	165,000	32,700	197,700	-	35,000
Notes Payable	52,788	9,238	62,026	-	-
Noncurrent Debt - due in more than one year					
Bonds Payable	1,930,000	878,765	2,808,765	-	645,000
Notes Payable	255,000	520,007	775,007	-	-
Total Liabilities	<u>2,402,788</u>	<u>1,440,710</u>	<u>3,843,498</u>	<u>-</u>	<u>686,975</u>
NET POSITION (DEFICIT)					
Net Investment in Capital Assets (Deficit)	(118,500)	1,733,125	1,614,625	-	295,000
Restricted	416,770	-	416,770	11,106	25,533
Unrestricted	866,192	362,967	1,229,159	-	-
Total Net Position (Deficit)	<u>\$ 1,164,462</u>	<u>\$ 2,096,092</u>	<u>\$ 3,260,554</u>	<u>\$ 11,106</u>	<u>\$ 320,533</u>

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended December 31, 2020

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Forman Library	Forman Housing
					Governmental Activities	Business-type Activities			
Governmental Activities									
General Government	\$ 318,685	\$ 3,230	\$ 3,091	\$ -	\$ (312,364)	\$ -	\$ (312,364)	\$ -	\$ -
Public Safety	9,823	-	-	-	(9,823)	-	(9,823)	-	-
Public Works/Infrastructure	72,398	-	40,657	309,304	277,563	-	277,563	-	-
Economic Development	6,615	-	-	-	(6,615)	-	(6,615)	-	-
Interest and Other Charges	103,726	-	-	-	(103,726)	-	(103,726)	-	-
Total Governmental Activities	511,247	3,230	43,748	309,304	(154,965)	-	(154,965)	-	-
Business-type Activities									
Water	172,845	189,626	-	-	-	16,781	16,781	-	-
Sewer	79,498	30,170	-	-	-	(49,328)	(49,328)	-	-
Garbage	86,757	89,581	-	-	-	2,824	2,824	-	-
Total Business-type Activities	339,100	309,377	-	-	-	(29,723)	19,605	-	-
Total Primary Government	\$ 850,347	\$ 312,607	\$ 43,748	\$ 309,304	(154,965)	(29,723)	(135,360)	-	-
Component Units									
Forman Library	16,828	6,169	5,931	-	-	-	-	(4,728)	-
Forman Housing	39,571	67,729	-	-	-	-	-	-	28,158
Total Component Units	\$ 56,399	\$ 73,898	\$ 5,931	\$ -	-	-	-	(4,728)	28,158
General Revenues									
Taxes									
Taxes Levied for General Purposes					124,875	-	124,875	6,084	-
Sales Taxes					59,852	-	59,852	-	-
State Aid Distribution					38,516	-	38,516	983	-
Interest and Investment Earnings					3,407	-	3,407	-	20
Gain on Sale of Assets					2,000	-	2,000	-	-
Transfers					20,401	(20,401)	-	-	-
Miscellaneous					12,145	-	12,145	33	-
Total General Revenues					261,196	(20,401)	240,795	7,100	20
Change in Net Position					106,231	(50,124)	56,107	2,372	28,178
Net Position, Beginning of Year					1,058,231	2,146,216	3,204,447	8,734	292,355
Net Position, End of Year					\$ 1,164,462	\$ 2,096,092	\$ 3,260,554	\$ 11,106	\$ 320,533

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
December 31, 2020

	Major Funds					
	General	Streets Project 2015	Sewer Replacement Dist. #2002-1	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 112,409	\$ 166,668	\$ -	\$ 395,300	\$ 455,875	\$ 1,130,252
Savings and CD's	-	-	-	-	88,882	88,882
Loan Receivable	-	-	-	-	63,828	63,828
Total Assets	112,409	166,668	-	395,300	608,585	1,282,962
FUND BALANCE						
Restricted	-	166,668	-	-	250,102	416,770
Assigned	-	-	-	395,300	358,483	753,783
Unassigned	112,409	-	-	-	-	112,409
Total Fund Balance	\$ 112,409	\$ 166,668	\$ -	\$ 395,300	\$ 608,585	\$ 1,282,962

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
December 31, 2020

Total Fund Balance - Governmental Funds		\$	1,282,962
Total net position reported for government activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.			
Cost of Capital Assets	4,184,668		
Less Accumulated Depreciation	<u>(1,900,380)</u>		
Net Capital Assets			2,284,288
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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position. Balances at the end of the year are reported in the statement of net position.			
Bonds Payable	(2,095,000)		
Notes Payable	<u>(307,788)</u>		
Total Long-term Liabilities			<u>(2,402,788)</u>
Net Position of Governmental Activities		\$	<u>1,164,462</u>

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS –
MODIFIED CASH BASIS**
Year Ended December 31, 2020

	Major Funds					
	General	Streets Project	Sewer Replacement Dist. #2002-1	Capital Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 121,139	\$ 14,965	\$ -	\$ -	\$ 48,623	\$ 184,727
Special Assessments	-	203,528	105,776	-	-	309,304
Licenses, Permits, and Fees	2,930	-	-	-	300	3,230
Intergovernmental	41,417	-	-	-	40,657	82,074
Interest Income	1,820	-	-	-	1,587	3,407
Miscellaneous Income	11,488	-	-	-	847	12,335
Total Revenues	178,794	218,493	105,776	-	92,014	595,077
EXPENDITURES						
Current						
General Government	176,962	-	-	-	5,744	182,706
Public Safety	9,823	-	-	-	-	9,823
Public Works/Infrastructure	30,296	-	-	-	42,102	72,398
Economic Development	-	-	-	-	6,615	6,615
Debt Service						
Principal	-	115,000	55,000	-	20,000	190,000
Interest and Other Charges	-	73,700	21,177	-	8,849	103,726
Total Expenditures	217,081	188,700	76,177	-	83,310	565,268
Excess (Deficiency) of Revenues Over Expenditures	(38,287)	29,793	29,599	-	8,704	29,809
OTHER FINANCING SOURCES (USES)						
Proceeds from Sale of Capital Asset	2,000	-	-	-	-	2,000
Operating Transfer In	40,000	-	-	20,000	-	60,000
Operating Transfer Out	(10,000)	-	(29,599)	-	-	(39,599)
Total Other Financing Sources (Uses)	32,000	-	(29,599)	20,000	-	22,401
NET CHANGE IN FUND BALANCE	(6,287)	29,793	-	20,000	8,704	52,210
FUND BALANCE, BEGINNING OF YEAR	118,696	136,875	-	375,300	599,881	1,230,752
FUND BALANCE, END OF YEAR	\$ 112,409	\$ 166,668	\$ -	\$ 395,300	\$ 608,585	\$ 1,282,962

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS**
Year Ended December 31, 2020

Net Change in Fund Balance - Total Governmental Funds	\$ 52,210
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets with a cost greater than \$5,000 is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current year.	(135,979)
Repayment of debt principal and other long-term liabilities are an expenditure in the governmental fund financial statements, but repayment reduces long-term liabilities in the statement of net position.	<u>190,000</u>
Change in Net Position of Governmental Activities	<u><u>\$ 106,231</u></u>

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2020

	Business-type Activities - Proprietary Funds			Total
	Water	Sewer	Garbage	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 128,342	\$ 120,741	\$ 63,884	\$ 312,967
Savings and CD's	25,000	25,000	-	50,000
Total Current Assets	153,342	145,741	63,884	362,967
Capital Assets				
Depreciable, net of accumulated depreciation				
Buildings and Improvements	4,327	-	-	4,327
Vehicles	-	-	12,676	12,676
Infrastructure	1,638,954	1,517,878	-	3,156,832
Total Capital Assets	1,643,281	1,517,878	12,676	3,173,835
Total Assets	1,796,623	1,663,619	76,560	3,536,802
LIABILITIES				
Current Liabilities				
Bonds Payable	32,700	-	-	32,700
Notes Payable	9,238	-	-	9,238
Total Current Liabilities	41,938	-	-	41,938
Long-term Liabilities				
Bonds Payable	878,765	-	-	878,765
Notes Payable	520,007	-	-	520,007
Total Long-term Liabilities	1,398,772	-	-	1,398,772
Total Liabilities	1,440,710	-	-	1,440,710
NET POSITION				
Net Investment in Capital Assets	202,571	1,517,878	12,676	1,733,125
Unrestricted	153,342	145,741	63,884	362,967
Total Net Position	\$ 355,913	\$ 1,663,619	\$ 76,560	\$ 2,096,092

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
December 31, 2020

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
OPERATING REVENUES				
Charges for Services	\$ 189,626	\$ 30,170	\$ 89,581	\$ 309,377
Other Income	-	-	-	-
Total Operating Revenues	189,626	30,170	89,581	309,377
OPERATING EXPENSES				
Utilities	16,626	2,698	14,074	33,398
Chemical and Testing Fees	-	-	-	-
Contracted Services	-	-	22,537	22,537
Salaries	21,088	8,205	27,272	56,565
Repairs and Maintenance	27,218	11,957	9,912	49,087
Depreciation	64,783	56,389	8,947	130,119
Supplies	-	-	2,800	2,800
Miscellaneous	-	-	1,215	1,215
Total Operating Expenses	129,715	79,249	86,757	295,721
OPERATING INCOME (LOSS)	59,911	(49,079)	2,824	13,656
NONOPERATING REVENUES (EXPENSES)				
Interest and Fiscal Fees	(43,130)	(249)	-	(43,379)
Operating Grants and Contributions	-	-	-	-
Loss on Sale of Capital Assets	-	-	-	-
Gain on Sale of Capital Assets	-	-	-	-
Special Assessments	-	-	-	-
Interest Income	-	-	-	-
Transfers In	86,844	29,599	-	116,443
Transfers Out	(111,844)	(15,000)	(10,000)	(136,844)
Total Nonoperating Revenues (Expenses)	(68,130)	14,350	(10,000)	(63,780)
CHANGE IN NET POSITION	(8,219)	(34,729)	(7,176)	(50,124)
NET POSITION, BEGINNING OF YEAR	364,132	1,698,348	83,736	2,146,216
NET POSITION, END OF YEAR	\$ 355,913	\$ 1,663,619	\$ 76,560	\$ 2,096,092

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
Year Ended December 31, 2020

	Business-type Activities - Proprietary Funds			
	Water	Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 189,626	\$ 30,170	\$ 89,581	\$ 309,377
Payments to Suppliers	(43,844)	(14,655)	(50,538)	(109,037)
Payments to Employees	(21,088)	(8,205)	(27,272)	(56,565)
Net Cash Provided by Operating Activities	124,694	7,310	11,771	143,775
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES				
Transfers to Other Funds	86,844	29,599	-	116,443
Transfers from Other Funds	(111,844)	(15,000)	(10,000)	(136,844)
Net Cash Provided by (Used By) Noncapital Financing Activities	(25,000)	14,599	(10,000)	(20,401)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Interest and Fiscal Fees	(43,130)	(249)	-	(43,379)
Principal Paid on Capital Debt	(41,214)	(9,000)	-	(50,214)
Acquisition of Capital Assets	(4,400)	(10,250)	-	(14,650)
Net Cash Provided by (Used By) Capital and Related Financing Activities	(88,744)	(19,499)	-	(108,243)
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,950	2,410	1,771	15,131
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	142,392	143,331	62,113	347,836
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 153,342</u>	<u>\$ 145,741</u>	<u>\$ 63,884</u>	<u>\$ 362,967</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used By) Operating Activities:				
Operating Income (Loss)	\$ 59,911	\$ (49,079)	\$ 2,824	\$ 13,656
Depreciation Expense	64,783	56,389	8,947	130,119
Net Cash Provided by Operating Activities	<u>\$ 124,694</u>	<u>\$ 7,310</u>	<u>\$ 11,771</u>	<u>\$ 143,775</u>

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF FIDUCIARY NET POSITION – MODIFIED CASH BASIS
December 31, 2020

	<u>Custodial Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ 8,951
Total Assets	8,951
NET POSITION	
Restricted	8,951
Total Net Position	<u>\$ 8,951</u>

See Notes to Financial Statements

CITY OF FORMAN
Forman, North Dakota

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – MODIFIED CASH BASIS
Year Ended December 31, 2020

	<u>Custodial Funds</u>
ADDITIONS	
Contributions	\$ 30,233
Total Additions	30,233
DEDUCTIONS	
Recipient Payments	32,759
Total Deductions	32,759
NET DECREASE IN FIDUCIARY NET POSITION	(2,526)
NET POSITION - BEGINNING	11,477
NET POSITION - ENDING	<u>\$ 8,951</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Based on these criteria, certain organizations have been included in the report as follows:

- Forman City Library – The Forman City Library's governing board is separate from the governing board of the City. The City's governing board approves the library board appointments and has the authority to disapprove, amend, or approve the library's budget.
- Forman Housing – The Forman Housing's governing board is separate from the governing board of the City. The City's governing board approves the housing board appointments and has the authority to disapprove, amend, or approve the housing's budget.

Government-Wide and Fund Financial Statements

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

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

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund and proprietary fund financial statements are reported using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund balance, revenues, expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

CITY OF FORMAN
Notes to Financial Statements – Continued

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.

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.
- Streets Project 2015 Fund – This fund is used to account for special assessments collected and related principal and interest payments on the Streets Project 2015 bond.
- Sewer Replacement 2002-1 Fund – This fund is used to account for special assessments collected and related principal and interest payments on the sewer replacement bonds.
- Capital Reserve Fund – This fund accounts for the accumulation of funds for various capital improvements to the City.

The City reports the following major proprietary funds:

- Water Fund – The City accounts for cash receipts and disbursements related to the furnishing of water services to residents of the City in this fund.
- Sewer Fund – The City accounts for cash receipts and disbursements related to the furnishing of sewer services to residents of the City in this fund.
- Garbage Fund – The City accounts for cash receipts and disbursements related to the furnishing of garbage services to residents of the City in this fund.

In addition, the City reports for the following fund types:

- Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The City’s fiduciary funds consist of the Forman Park Board.

Cash and Investments

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

The investments of the City at December 31, 2020, consists of certificates of deposit stated at cost.

CITY OF FORMAN
Notes to Financial Statements – Continued

Capital Assets

Capital assets include land, buildings, infrastructure and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 – 50
Infrastructure	7 – 50
Machinery & Equipment	7

Long-term Obligations

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

Fund Balances and Net Position

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

Fund Balance Spending Policy

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

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

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

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.

CITY OF FORMAN
Notes to Financial Statements – Continued

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By city council action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the city council and the city auditor.	By city council, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Restricted Fund Balance consists of amounts reported in the Highway Distribution, Streets Project 2015, Sewer Drain #4, and Flood funds. These funds are restricted by enabling legislation, tax levy, and bond indenture.

Assigned fund consists of amounts reported in the Forman Industrial Park, Forman Improvement, Capital Reserve, Cemetery, Perpetual, and Forman Job Development funds. These funds are assigned for special use.

The General Fund is the only fund that reports an unassigned fund balance.

Net Position

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

Net investment in capital assets is reported for capital assets less accumulated depreciation and any related debt used to construct them.

CITY OF FORMAN
Notes to Financial Statements – Continued

The resources needed to repay this related debt must be provided from other sources, since capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

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

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

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

Interfund Transactions

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

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

At December 31, 2020, the City's carrying amount of deposits was \$1,591,052 and the bank balances were \$1,591,838. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balance was collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk

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

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

CITY OF FORMAN
Notes to Financial Statements – Continued

- Obligations of the state.

As of December 31, 2020, the City held \$138,882 in certificates of deposit.

Interest Rate Risk

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

Concentration of Credit Risk

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

NOTE 3 – PROPERTY TAXES

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

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

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

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

CITY OF FORMAN
Notes to Financial Statements – Continued

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2020:

	Balance January 1, 2020	Additions	Retirements	Balance December 31, 2020
Governmental Activities:				
Capital Assets, not being depreciated				
Land	\$ 80,514	\$ -	\$ -	\$ 80,514
Total Capital Assets, not being depreciated	80,514	-	-	80,514
Capital Assets, being depreciated				
Buildings and Improvements	322,028	-	-	322,028
Vehicles	109,639	9,500	(2,800)	116,339
Equipment	404,856	-	-	404,856
Infrastructure	3,260,931	-	-	3,260,931
Total Capital Assets, being depreciated	4,097,454	9,500	(2,800)	4,104,154
Less Accumulated Depreciation for:				
Buildings and Improvements	131,011	8,178	-	139,189
Vehicles	94,139	10,214	(2,800)	101,553
Equipment	296,015	24,532	-	320,547
Infrastructure	1,236,536	102,555	-	1,339,091
Total Accumulated Depreciation	1,757,701	145,479	(2,800)	1,900,380
Total Capital Assets Being Depreciated, net	2,339,753	(135,979)	-	2,203,774
Governmental Activities Capital Assets, net	<u>\$ 2,420,267</u>	<u>\$ (135,979)</u>	<u>\$ -</u>	<u>\$ 2,284,288</u>
	Balance January 1, 2020	Additions	Retirements	Balance December 31, 2020
Business-type Activities:				
Capital Assets, being depreciated				
Buildings and Improvements	\$ 13,500	\$ 4,400	\$ -	\$ 17,900
Vehicles	62,631	-	-	62,631
Equipment	19,500	-	-	19,500
Infrastructure	4,767,113	10,250	-	4,777,363
Total Capital Assets, being depreciated	4,862,744	14,650	-	4,877,394
Less Accumulated Depreciation for:				
Buildings and Improvements	13,500	73	-	13,573
Vehicles	41,008	8,947	-	49,955
Equipment	19,500	-	-	19,500
Infrastructure	1,499,432	121,099	-	1,620,531
Total Accumulated Depreciation	1,573,440	130,119	-	1,703,559
Total Capital Assets Being Depreciated, net	3,289,304	(115,469)	-	3,173,835
Business-type Activities Capital Assets, net	<u>\$ 3,289,304</u>	<u>\$ (115,469)</u>	<u>\$ -</u>	<u>\$ 3,173,835</u>

CITY OF FORMAN
Notes to Financial Statements – Continued

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

Governmental Activities:	
General Government	\$ 145,479
Total Depreciation Expense - Governmental Activities	<u>\$ 145,479</u>
Business-type Activities:	
Water	\$ 64,783
Sewer	56,389
Garbage	8,947
Total Depreciation Expense - Business-type Activities	<u>\$ 130,119</u>

NOTE 5 – LOAN RECEIVABLE

The City loaned the Forman Park Board \$63,828 at 1% for capital expenditures. The loan will be paid back as follows:

2021	\$ 12,513
2022	12,638
2023	12,765
2024	12,892
2025	<u>13,020</u>
Total	<u>\$ 63,828</u>

There is no early prepayment penalty on the note.

NOTE 6 – FUND TRANSFERS

The following fund transfers were made during the year ended December 31, 2020:

	Operating Transfer In	Operating Transfer Out
General	\$ 40,000	\$ 10,000
Sewer Replacement Dist. #2002-1	-	29,599
Capital Reserve Fund	<u>20,000</u>	<u>-</u>
Total Governmental Funds	<u>\$ 60,000</u>	<u>\$ 39,599</u>

The proprietary funds transferred \$40,000 to the general fund for unallocated expenditures. The General Fund transferred \$10,000 and the Water Fund transferred \$10,000 to the Capital Reserve Fund for future capital expenditures. The Sewer Replacement District transfers any residual funds to the Sewer Fund every year.

CITY OF FORMAN
Notes to Financial Statements – Continued

NOTE 7 – LONG-TERM LIABILITIES

During the year ended December 31, 2020, the following changes occurred in long-term liabilities of the City:

	Long-term Liabilites at January 1, 2020	Increases	Decreases	Long-term Liabilites at December 31, 2020	Due Within One Year
Governmental Activities					
Bonds Payable	\$ 2,265,000	\$ -	\$ (170,000)	\$ 2,095,000	\$ 165,000
Notes Payable	327,788	-	(20,000)	307,788	52,788
Total - Business-type Activities	<u>\$ 2,592,788</u>	<u>\$ -</u>	<u>\$ (190,000)</u>	<u>\$ 2,402,788</u>	<u>\$ 217,788</u>
	Long-term Liabilites at January 1, 2020	Increases	Decreases	Long-term Liabilites at December 31, 2020	Due Within One Year
Business-type Activities					
Bonds Payable	\$ 943,666	\$ -	\$ (32,201)	\$ 911,465	\$ 32,700
Notes Payable	547,258	-	(18,013)	529,245	9,238
Total - Business-type Activities	<u>\$ 1,490,924</u>	<u>\$ -</u>	<u>\$ (50,214)</u>	<u>\$ 1,440,710</u>	<u>\$ 41,938</u>

Long-term debt of the governmental and business-type activities at December 31, 2020 consists of the following issues:

- Governmental Activities
 - Bonds Payable
 - § \$1,090,000 refunding sewer main replacement due in annual principal instalments of \$50,000 - \$55,000 through June 1, 2033 at rates of 2.00% - 3.50%, \$650,000 remains outstanding.
 - § \$1,965,000 refunding improvement bond due in annual principal installments of \$90,000 - \$180,000 through June 1, 2030 at rates of 2.00% - 5.25%, \$1,445,000 remains outstanding.
 - Notes Payable
 - § \$434,337 Sewer Drain #4, due in annual principal installments of \$19,337 - \$30,000 through September 1, 2031 at 2.50%, \$275,000 remains outstanding.
 - § \$79,000 payloader loan due in annual principal and interest payments of \$17,098 through December 9, 2021 at 2.85%, \$32,788 remains outstanding.
- Business-type Activities
 - Bonds Payable
 - § \$740,000 water plant revenue bonds of 2001, due in annal principal installments of \$10,700 - \$31,800 through December 10, 2041 at 3.00%, \$506,465 remains outstanding.
 - § \$505,000 refunding water plant revenue bonds of 2001, due in annual principal installments of \$10,000 - \$25,000 through December 31, 2042 at 2.00% - 3.75%, \$405,000 remains outstanding.
 - Notes Payable
 - § \$555,630 USDA water improvement loan, due in annual principal installments of \$8,579 - \$21,925 through January 1, 2056 at 2.5%, \$529,245 remains outstanding.

CITY OF FORMAN
Notes to Financial Statements – Continued

The debt service requirements are as follows:

	Governmental Activities	Business-type Activities
2021	\$ 217,788	\$ 41,939
2022	195,000	42,669
2023	200,000	43,507
2024	210,000	44,249
2025	215,000	45,198
2026 - 2030	1,195,000	248,843
2031 - 2035	170,000	288,464
2036 - 2040	-	336,633
2041 - 2045	-	135,540
2046 - 2050	-	90,032
2051 - 2055	-	101,863
2056	-	21,773
Total	<u>\$ 2,402,788</u>	<u>\$ 1,440,710</u>

NOTE 8 – RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Forman pays an annual premium to NDIRF for its general liability, auto, and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile coverage and to \$468,281 for inland marine.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$2,000,000 per occurrence during a twelve-month period.

The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$673,713 for the City employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 9 – LEGAL COMPLIANCE - BUDGETS

The City's general fund expenditures did not exceed budgeted amounts for the current year.

CITY OF FORMAN
Notes to Financial Statements – Continued

NOTE 10 – CORRECTION OF MISSTATEMENT

It was determined that there was a financial misstatement for the year ended December 31, 2019. The misstatement includes an overstatement of fixed assets in the governmental activities and an understatement of fixed assets in the business-type activities. The City made the following correction:

	Primary Government	
	Governmental Activities	Business-type Activities
Net Position, previously reported	\$ 4,347,535	\$ (1,143,088)
Fixed Assets	(4,862,744)	4,862,744
Accumulated Depreciation	1,573,440	(1,573,440)
Net Position, restated	<u>\$ 1,058,231</u>	<u>\$ 2,146,216</u>

NOTE 11 – SUBSEQUENT EVENTS

The City has evaluated subsequent events through October 20, 2021, the date on which the financial statements were available to be issued.

CITY OF FORMAN
Forman, North Dakota

NONMAJOR GOVERNMENTAL FUNDS – COMBINING BALANCE SHEET – MODIFIED CASH BASIS
December 31, 2020

	Highway Distribution	Cemetery	Perpetual	Flood	Forman Industrial Park	Forman Improvement	Forman Job Development	Sewer Drain # 4 Repl 2011	Total Other Governmental Funds
ASSETS									
Cash and Cash Equivalents	\$ 42,911	\$ 4,098	\$ 10,300	\$ 1,321	\$ 177,626	\$ 40,893	\$ 4,856	\$ 173,870	\$ 455,875
Savings and CD's	-	-	12,750	-	23,482	20,650	-	32,000	88,882
Loan Receivable	-	-	-	-	-	63,828	-	-	63,828
Total Assets	42,911	4,098	23,050	1,321	201,108	125,371	4,856	205,870	608,585
FUND BALANCE									
Restricted	42,911	-	-	1,321	-	-	-	205,870	250,102
Assigned	-	4,098	23,050	-	201,108	125,371	4,856	-	358,483
Total Fund Balance	\$ 42,911	\$ 4,098	\$ 23,050	\$ 1,321	\$ 201,108	\$ 125,371	\$ 4,856	\$ 205,870	\$ 608,585

CITY OF FORMAN
Forman, North Dakota

**NONMAJOR GOVERNMENTAL FUNDS – COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
MODIFIED CASH BASIS**
Year Ended December 31, 2020

	Highway Distribution	Cemetery	Perpetual	Flood	Forman Industrial Park	Forman Improvement	Forman Job Development	Sewer Drain # 4 Rep12011	Total Other Governmental Funds
REVENUES									
Taxes	\$ -	\$ 3,736	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,887	\$ 48,623
Licenses, Permits, and Fees	-	-	300	-	-	-	-	-	300
Intergovernmental	40,657	-	-	-	-	-	-	-	40,657
Interest Income	-	224	-	-	434	433	-	496	1,587
Miscellaneous Income	350	490	-	-	-	7	-	-	847
Total Revenues	41,007	4,450	300	-	434	440	-	45,383	92,014
EXPENDITURES									
Current									
General Government	-	3,442	-	-	2,302	-	-	-	5,744
Public Works/Infrastructure	42,102	-	-	-	-	-	-	-	42,102
Economic Development	-	-	-	-	-	6,615	-	-	6,615
Debt Service									
Principal	-	-	-	-	-	-	-	20,000	20,000
Interest and Other Charges	-	-	-	-	-	-	-	8,849	8,849
Total Expenditures	42,102	3,442	-	-	2,302	6,615	-	28,849	83,310
Excess (Deficiency) of Revenues									
Over Expenditures	(1,095)	1,008	300	-	(1,868)	(6,175)	-	16,534	8,704
FUND BALANCE, BEGINNING OF YEAR	44,006	3,090	22,750	1,321	202,976	131,546	4,856	189,336	599,881
FUND BALANCE, END OF YEAR	\$ 42,911	\$ 4,098	\$ 23,050	\$ 1,321	\$ 201,108	\$ 125,371	\$ 4,856	\$ 205,870	\$ 608,585

CITY OF FORMAN
Forman, North Dakota

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
Year Ended December 31, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 121,663	\$ 121,663	\$ 121,139	\$ (524)
Licenses, Permits, and Fees	3,950	3,950	2,930	(1,020)
Intergovernmental	42,528	42,528	41,417	(1,111)
Interest Income	1,900	1,900	1,820	(80)
Miscellaneous Income	1,000	1,000	11,488	10,488
Total Revenues	171,041	171,041	178,794	7,753
EXPENDITURES				
Current				
General Government	168,845	168,845	176,962	(8,117)
Public Safety	9,460	9,460	9,823	(363)
Public Works/Infrastructure	36,800	36,800	30,296	6,504
Facilities Acquisition and Construction	7,700	7,700	-	7,700
Total Expenditures	222,805	222,805	217,081	5,724
Exces (Deficiency) of Revenues over Expenditures	(51,764)	(51,764)	(38,287)	13,477
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Asset	-	-	2,000	2,000
Operating Transfer In	45,000	45,000	40,000	(5,000)
Operating Transfer Out	(16,000)	(16,000)	(10,000)	6,000
Total Other Financing Sources (Uses)	29,000	29,000	32,000	3,000
NET CHANGE IN FUND BALANCE	(22,764)	(22,764)	(6,287)	16,477
FUND BALANCE, BEGINNING OF YEAR			118,696	
FUND BALANCE, END OF YEAR			<u>\$ 112,409</u>	



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

City Council
City of Forman
Forman, 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 modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unites, each major fund, and the aggregate remaining fund information of the City of Forman, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Forman's basic financial statements, and have issued our report thereon dated October 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Forman's internal control over financial reporting (internal control) as a basis for designing 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 Forman's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of current year findings that we consider to be material weaknesses (2020-001 and 2020-002).

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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



Nadine Julson, LLC
Wahpeton, North Dakota
October 20, 2021

SCHEDULE OF CURRENT YEAR FINDINGS
Year ended December 31, 2020

2020-001 INADEQUATE SEGREGATION OF DUTIES

Criteria

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the City.

Condition

Proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. More segregation of duties would provide better control over the assets of the City.

Effect or Potential Effect

Without sufficient segregation of duties, the risk significant increases that errors and fraud related to cash receipts, disbursements, and reconciliations, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials

There is no disagreement with the audit finding. The City will segregate duties to reduce the risk of fraud where possible.

CITY OF FORMAN
Schedule of Current Year Findings – Continued

2020-002 FINANCIAL STATEMENT PREPARATION

Criteria

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

Condition

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

Effect or Potential Effect

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

Recommendation

We recommend the City be aware of this condition and be prepared and able to provide all necessary information and schedules to complete the financial statements and disclosures. As a compensating control, the City should establish an internal control policy to document annual review of the financial statements and to review a financial statement disclosure checklist.

Views of Responsible Officials

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended December 31, 2020

Prior Financial Statement Findings:

2019-001

A material weakness for inadequate segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This material weakness continues to exist under the current audit findings as finding number 2020-001.

2019-002

A material weakness was reported for preparation of financial statements.

Corrective Action Plan

The accounting functions should be reviewed to determine if it is feasible for the City to prepare its own financial statesman. This material weakness continues to exist under the current audit findings as number 2020-002.