



City of Washburn

Washburn, North Dakota

Audit Report

For the Years Ended December 31, 2018 and 2017

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

CITY OF WASHBURN

Table of Contents

For the Years Ended December 31, 2018 and 2017

City Officials and Audit Personnel	1
Independent Auditor's Report	2
Basic Financial Statements	
2018 Statements	
Statement of Net Position.....	4
Statement of Activities.....	5
Balance Sheet - Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	7
Statement of Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Position - Proprietary Funds.....	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	11
Statement of Cash Flows - Proprietary Funds	12
2017 Statements	
Statement of Net Position.....	13
Statement of Activities.....	14
Balance Sheet - Governmental Funds	15
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Net Position - Proprietary Funds.....	19
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds.....	20
Statement of Cash Flows - Proprietary Funds	21
Statement of Fiduciary Assets & Liabilities - Agency Funds	22
Notes to the Financial Statements.....	23
Required Supplementary Information	
Budgetary Comparison Schedules	34
Notes to the Required Supplementary Information	38
Supplementary Information	
Schedule of Fund Activity - Cash Basis - 2018.....	40
Schedule of Fund Activity - Cash Basis - 2017.....	41
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.....	42
Summary of Auditor's Results.....	44
Schedule of Audit Findings	45
Governance Communication	52

CITY OF WASHBURN

City Officials and Audit Personnel
December 31, 2018 and 2017

CITY OFFICIALS

As of December 31, 2018

Larry Thomas	President
Kit Baumann	Commissioner
Noelle Kroll	Commissioner
Kollin Syverson	Commissioner
Mike Herdt	Commissioner
Bryan Rothman	Superintendent
Ranie Price	City Auditor

As of December 31, 2017

Larry Thomas	President
Kit Baumann	Commissioner
Noelle Kroll	Commissioner
Keith Jacobson	Commissioner
Reese Boehm	Commissioner
Bryan Rothman	Superintendent
Joan Zimmerman	City Auditor

AUDIT PERSONNEL

Craig Hashbarger, CPA, CIA, CFE	Audit Manager
Alex Bakken, CPA	Audit In-Charge



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

INDEPENDENT AUDITOR'S REPORT

Board of City Commissioners
City of Washburn
Washburn, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn, North Dakota, 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 Washburn's basic financial statements as listed in the table of contents.

Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn, North Dakota, as of December 31, 2018 and 2017, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the City of Washburn has elected to change its method of accounting for the financial statements. Effective January 1, 2017, the City of Washburn's financial statement will be prepared under U.S. GAAP instead of under the modified cash basis of accounting. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *budgetary comparison schedules* and *the notes to the required supplementary information* on pages 34-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Washburn's basic financial statements. The *schedule of fund activity - cash basis - 2018* and *schedule of fund activity - cash basis - 2017* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The *schedule of fund activity - cash basis - 2018* and *schedule of fund activity - cash basis - 2017* are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 *schedule of fund activity - cash basis - 2018* and *schedule of fund activity - cash basis - 2017* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019 on our consideration of the City of Washburn'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 the City of Washburn's 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 Washburn's internal control over financial reporting and compliance.

/s/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 7, 2019

CITY OF WASHBURN

Statement of Net Position

December 31, 2018

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Library	Airport
ASSETS					
Cash and Investments	\$ 2,524,290	\$ 931,433	\$ 3,455,723	\$ 35,386	\$ 98,346
Utility Billings Receivable	-	59,506	59,506	-	-
Accounts Receivable	1,749	-	1,749	-	-
Due from County	12,975	-	12,975	-	-
Taxes Receivable	4,931	-	4,931	430	430
Special Assessments Receivable	7,927,860	-	7,927,860	-	-
Capital Assets, Net	10,961,145	10,156,649	21,117,794	-	1,517,763
Total Assets	\$ 21,432,950	\$ 11,147,588	\$ 32,580,538	\$ 35,816	\$ 1,616,539
LIABILITIES					
Accounts Payable	\$ 24,693	\$ 14,779	\$ 39,472	\$ -	\$ -
Salaries and Benefits Payable	38,026	312	38,338	-	-
Prepaid Receipts	-	7,657	7,657	-	-
Interest Payable	53,955	13,350	67,305	-	-
Long-Term Liabilities					
Due Within One Year					
Long-Term Debt	762,560	240,000	1,002,560	-	-
Compensated Absences Payable	383	-	383	-	-
Due After One Year					
Long-Term Debt	8,826,041	2,415,000	11,241,041	-	-
Compensated Absences Payable	3,445	-	3,445	-	-
Total Liabilities	\$ 9,709,103	\$ 2,691,098	\$ 12,400,201	\$ -	\$ -
NET POSITION					
Net Investment in Capital Assets	\$ 1,372,544	\$ 7,501,649	\$ 8,874,193	\$ -	\$ 1,517,763
Restricted					
Debt Service	7,873,905	-	7,873,905	-	-
Capital Projects	978,041	-	978,041	-	-
General Government	900,539	-	900,539	-	-
Public Works	525,641	-	525,641	-	-
Emergencies	22,142	-	22,142	-	-
Economic/Job Development	18,225	-	18,225	-	-
Culture and Recreation	-	-	-	35,816	-
Unrestricted	32,810	954,841	987,651	-	98,776
Total Net Position	\$ 11,723,847	\$ 8,456,490	\$ 20,180,337	\$ 35,816	\$ 1,616,539

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Activities

For the Year Ended December 31, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Library	Airport
PRIMARY GOVERNMENT									
Governmental Activities									
General Government	\$ 677,736	\$ 32,776	\$ -	\$ -	\$ (644,960)		\$ (644,960)		
Public Safety	164,626	-	-	-	(164,626)		(164,626)		
Public Works	408,269	-	238,914	479,200	309,845		309,845		
Culture and Recreation	21,242	-	-	-	(21,242)		(21,242)		
Emergency	170	-	-	-	(170)		(170)		
Interest & Fees on Long-Term Debt	302,283	-	-	-	(302,283)		(302,283)		
Total Governmental Activities	\$ 1,579,667	\$ 32,776	\$ 238,914	\$ 479,200	\$ (828,777)		\$ (828,777)		
Business-Type Activities									
Water	\$ 536,133	\$ 498,109	\$ -	\$ -	\$ -	\$ (38,024)	\$ (38,024)		
Sewer	73,872	143,598	-	-	-	69,726	-		
Garbage	90,471	94,878	-	-	-	4,407	-		
Total Business-Type Activities	\$ 700,476	\$ 736,585	\$ -	\$ -	\$ -	\$ 36,109	\$ (38,024)		
Total Primary Government	\$ 2,280,143	\$ 769,361	\$ 238,914	\$ 479,200	\$ (828,777)	\$ 36,109	\$ (866,801)		
COMPONENT UNITS									
Library	\$ 32,749	\$ -	\$ 848	\$ -			\$ (31,901)		
Airport	199,131	13,134	118,612	-				(67,385)	
Total Component Units	\$ 231,880	\$ 13,134	\$ 119,460	\$ -			\$ (31,901)	\$ (67,385)	
GENERAL REVENUES									
Taxes									
Property Taxes					\$ 203,458	\$ -	\$ 203,458	\$ 17,857	\$ 25,607
Sales Taxes					238,235	-	238,235	-	-
Non-Restricted Grants and Contributions					302,890	-	302,890	-	-
Unrestricted Investment Earnings					18,534	-	18,534	18	-
Miscellaneous					24,951	-	24,951	8,221	643
Total General Revenues and Transfers					\$ 788,068	\$ -	\$ 788,068	\$ 26,096	\$ 26,250
Changes in Net Position					\$ (40,709)	\$ 36,109	\$ (4,600)	\$ (5,805)	\$ (41,135)
Net Position - January 1					\$11,764,556	\$8,420,381	\$20,184,937	\$ 41,621	\$1,657,674
Net Position - December 31					\$11,723,847	\$8,456,490	\$20,180,337	\$ 35,816	\$1,616,539

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Balance Sheet – Governmental Funds
December 31, 2018

	General Fund	Special Revenue Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 550,188	\$ 1,471,582	\$ 502,520	\$ -	\$ 2,524,290
Accounts Receivable	1,749	-	-	-	1,749
Due from County	-	-	-	12,975	12,975
Taxes Receivable	4,931	-	-	-	4,931
Special Assessments Receivable	-	-	-	7,927,860	7,927,860
Due from Other Funds	-	-	475,521	-	475,521
Total Assets	\$ 556,868	\$ 1,471,582	\$ 978,041	\$ 7,940,835	\$ 10,947,326
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 23,590	\$ 1,103	\$ -	\$ -	\$ 24,693
Salaries and Benefits Payable	37,922	104	-	-	38,026
Due to Other Funds	-	-	-	475,521	475,521
Total Liabilities	\$ 61,512	\$ 1,207	\$ -	\$ 475,521	\$ 538,240
Deferred Inflows of Resources					
Uncollected Taxes Receivable	\$ 4,931	\$ -	\$ -	\$ -	\$ 4,931
Uncollected Special Assessments Receivable	-	-	-	7,927,860	7,927,860
Total Deferred Inflows of Resources	\$ 4,931	\$ -	\$ -	\$ 7,927,860	\$ 7,932,791
Total Liabilities & Deferred Inflows of Resources	\$ 66,443	\$ 1,207	\$ -	\$ 8,403,381	\$ 8,471,031
Fund Balances					
Restricted					
Capital Projects Funds	\$ -	\$ -	\$ 619,666	\$ -	\$ 619,666
General Government	-	904,367	-	-	904,367
Public Works/Streets	-	525,641	-	-	525,641
Emergency	-	22,142	-	-	22,142
Economic Development	-	18,225	-	-	18,225
Assigned					
Public Works/Streets	-	-	358,375	-	358,375
Unassigned					
General Fund	490,425	-	-	-	490,425
Negative Fund Balances	-	-	-	(462,546)	(462,546)
Total Fund Balances	\$ 490,425	\$ 1,470,375	\$ 978,041	\$ (462,546)	\$ 2,476,295
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 556,868	\$ 1,471,582	\$ 978,041	\$ 7,940,835	\$ 10,947,326

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2018

Total Fund Balances for Governmental Funds \$ 2,476,295

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 10,961,145

Certain receivables will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflow of resources in the funds.

Property Taxes Receivable	\$ 4,931	
Special Assessments Receivable	<u>7,927,860</u>	7,932,791

Long-term liabilities 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.

Long-Term Debt	\$ (9,588,601)	
Interest Payable	(53,955)	
Compensated Absences	<u>(3,828)</u>	<u>(9,646,384)</u>

Total Net Position of Governmental Activities \$ 11,723,847

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 For the Year Ended December 31, 2018

	General Fund	Special Revenue Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Property Taxes	\$ 201,968	\$ -	\$ -	\$ -	\$ 201,968
Special Assessment Taxes	-	-	-	1,029,757	1,029,757
Sales Taxes	-	238,235	-	-	238,235
Licenses, Permits and Fees	22,374	-	-	-	22,374
Charges for Services	3,030	-	-	-	3,030
Intergovernmental	302,890	98,198	140,716	-	541,804
Fines, Forfeitures and Penalties	7,372	-	-	-	7,372
Interest	1,753	4,308	12,473	-	18,534
Miscellaneous	22,873	2,078	-	-	24,951
Total Revenues	\$ 562,260	\$ 342,819	\$ 153,189	\$ 1,029,757	\$ 2,088,025
EXPENDITURES					
Current					
General Government	\$ 535,998	\$ 104,640	\$ -	\$ -	\$ 640,638
Public Safety	164,626	-	-	-	164,626
Public Works	-	64,239	208,134	-	272,373
Economic Development	-	5,341	-	-	5,341
Culture and Recreation	13,500	-	-	-	13,500
Emergency	-	170	-	-	170
Debt Service					
Principal	-	-	-	835,000	835,000
Interest	-	-	-	276,316	276,316
Fees	-	-	-	21,951	21,951
Total Expenditures	\$ 714,124	\$ 174,390	\$ 208,134	\$ 1,133,267	\$ 2,229,915
Excess (Deficiency) of Revenues Over Expenditures					
	\$ (151,864)	\$ 168,429	\$ (54,945)	\$ (103,510)	\$ (141,890)
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ -	\$ 29,130	\$ 183,893	\$ -	\$ 213,023
Transfers Out	-	(183,893)	(29,130)	-	(213,023)
Total Other Financing Sources and Uses	\$ -	\$ (154,763)	\$ 154,763	\$ -	\$ -
Net Change in Fund Balances	\$ (151,864)	\$ 13,666	\$ 99,818	\$ (103,510)	\$ (141,890)
Fund Balance - January 1	\$ 642,289	\$ 1,456,709	\$ 878,223	\$ (359,036)	\$ 2,618,185
Fund Balance - December 31	\$ 490,425	\$ 1,470,375	\$ 978,041	\$ (462,546)	\$ 2,476,295

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2018

Net Change in Fund Balances - Total Governmental Funds \$ (141,890)

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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 220,427	
Current Year Depreciation Expense	<u>(400,760)</u>	(180,333)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Change in Compensated Absences	\$ (403)	
Net Change in Interest Payable	<u>3,423</u>	3,020

The proceeds of debt issuances are reported as other financing sources in governmental funds and contribute to change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Change in Bond Discount	\$ (7,439)	
Repayment of Long-Term Debt	<u>835,000</u>	827,561

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Change in Taxes Receivable	\$ 1,490	
Net Change in Special Assessments Receivable	<u>(550,557)</u>	<u>(549,067)</u>

Change in Net Position of Governmental Activities \$ (40,709)

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURNStatement of Net Position – Proprietary Funds
December 31, 2018

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Total
ASSETS				
Cash and Investments	\$ 302,142	\$ 570,938	\$ 58,353	\$ 931,433
Utility Billings Receivable	39,293	12,843	7,370	59,506
Capital Assets, Net	8,689,577	1,467,072	-	10,156,649
Total Assets	\$ 9,031,012	\$ 2,050,853	\$ 65,723	\$ 11,147,588
LIABILITIES				
Accounts Payable	\$ 14,779	\$ -	\$ -	\$ 14,779
Salaries Payable	312	-	-	312
Prepaid Receipts	7,657	-	-	7,657
Interest Payable	10,650	2,700	-	13,350
Long-Term Liabilities				
Due Within One Year				
Long-Term Debt	220,000	20,000	-	240,000
Due After One Year				
Long-Term Debt	2,030,000	385,000	-	2,415,000
Total Liabilities	\$ 2,283,398	\$ 407,700	\$ -	\$ 2,691,098
NET POSITION				
Net Investment in Capital Assets	\$ 6,439,577	\$ 1,062,072	\$ -	\$ 7,501,649
Unrestricted	308,037	581,081	65,723	954,841
Total Net Position	\$ 6,747,614	\$ 1,643,153	\$ 65,723	\$ 8,456,490

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
 For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 496,831	\$ 143,598	\$ 94,878	\$ 735,307
Miscellaneous	1,278	-	-	1,278
Total Operating Revenues	<u>\$ 498,109</u>	<u>\$ 143,598</u>	<u>\$ 94,878</u>	<u>\$ 736,585</u>
OPERATING EXPENSES				
Salaries and Wages	\$ 69,060	\$ 18,253	\$ -	\$ 87,313
Health Insurance	15,432	5,740	-	21,172
Utilities	25,027	4,658	-	29,685
Supplies, Maintenance, and Repairs	81,158	3,958	-	85,116
Contract	-	-	90,471	90,471
Other	25,061	-	-	25,061
Depreciation	273,921	30,771	-	304,692
Total Operating Expenses	<u>\$ 489,659</u>	<u>\$ 63,380</u>	<u>\$ 90,471</u>	<u>\$ 643,510</u>
Operating Income (Loss)	<u>\$ 8,450</u>	<u>\$ 80,218</u>	<u>\$ 4,407</u>	<u>\$ 93,075</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Expense and Service Charges	\$ (46,474)	\$ (10,492)	\$ -	\$ (56,966)
Change in Net Position	<u>\$ (38,024)</u>	<u>\$ 69,726</u>	<u>\$ 4,407</u>	<u>\$ 36,109</u>
Net Position - January 1	<u>\$ 6,785,638</u>	<u>\$ 1,573,427</u>	<u>\$ 61,316</u>	<u>\$ 8,420,381</u>
Net Position - December 31	<u>\$ 6,747,614</u>	<u>\$ 1,643,153</u>	<u>\$ 65,723</u>	<u>\$ 8,456,490</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Cash Flows – Proprietary Funds
 For the Year Ended December 31, 2018

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 493,938	\$ 141,892	\$ 94,854	\$ 730,684
Payments to Suppliers	(140,403)	(14,357)	(90,471)	(245,231)
Payments to Employees	(73,336)	(18,252)	-	(91,588)
Other Receipts	1,278	-	-	1,278
Net Cash Provided (Used) by Operating Activities	<u>\$ 281,477</u>	<u>\$ 109,283</u>	<u>\$ 4,383</u>	<u>\$ 395,143</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Capital Debt	\$ (215,000)	\$ (20,000)	\$ -	\$ (235,000)
Interest and Fees Paid on Capital Debt	(47,575)	(10,625)	-	(58,200)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (262,575)</u>	<u>\$ (30,625)</u>	<u>\$ -</u>	<u>\$ (293,200)</u>
Net Increase (Decrease) in Cash & Cash Equivalents	<u>\$ 18,902</u>	<u>\$ 78,658</u>	<u>\$ 4,383</u>	<u>\$ 101,943</u>
Cash and Cash Equivalents - January 1	<u>\$ 283,240</u>	<u>\$ 492,280</u>	<u>\$ 53,970</u>	<u>\$ 829,490</u>
Cash and Cash Equivalents - December 31	<u>\$ 302,142</u>	<u>\$ 570,938</u>	<u>\$ 58,353</u>	<u>\$ 931,433</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 8,450	\$ 80,218	\$ 4,407	\$ 93,075
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 273,921	\$ 30,771	\$ -	\$ 304,692
Change in Assets and Liabilities				
Utility Billings Receivable	(4,552)	(1,706)	(24)	(6,282)
Salaries Payable	(4,276)	-	-	(4,276)
Accounts Payable	6,275	-	-	6,275
Unearned Revenue	1,659	-	-	1,659
Net Cash Provided (Used) by Operating Activities	<u>\$ 281,477</u>	<u>\$ 109,283</u>	<u>\$ 4,383</u>	<u>\$ 395,143</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Net Position
December 31, 2017

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Library	Airport
ASSETS					
Cash and Investments	\$ 2,598,625	\$ 829,490	\$ 3,428,115	\$ 41,330	\$ 78,669
Utility Billings Receivable	-	53,224	53,224	-	-
Accounts Receivable	734	-	734	-	-
Intergovernmental Receivable	71,562	-	71,562	-	-
Taxes Receivable	3,441	-	3,441	291	291
Special Assessments Receivable	8,478,417	-	8,478,417	-	-
Capital Assets, Net	11,141,478	10,461,341	21,602,819	-	1,578,714
Total Assets	\$ 22,294,257	\$ 11,344,055	\$ 33,638,312	\$ 41,621	\$ 1,657,674
LIABILITIES					
Accounts Payable	\$ 40,791	\$ 8,505	\$ 49,296	\$ -	\$ -
Salaries and Benefits Payable	11,945	4,588	16,533	-	-
Prepaid Receipts	-	5,997	5,997	-	-
Interest Payable	57,378	14,584	71,962	-	-
Long-Term Liabilities					
Due Within One Year					
Long-Term Debt	827,561	235,000	1,062,561	-	-
Compensated Absences Payable	342	-	342	-	-
Due After One Year					
Long-Term Debt	9,588,601	2,655,000	12,243,601	-	-
Compensated Absences Payable	3,083	-	3,083	-	-
Total Liabilities	\$ 10,529,701	\$ 2,923,674	\$ 13,453,375	\$ -	\$ -
NET POSITION					
Net Investment in Capital Assets	\$ 725,316	\$ 7,571,341	\$ 8,296,657	\$ -	\$ 1,578,714
Restricted					
Debt Service	8,421,039	-	8,421,039	-	-
Capital Projects	878,223	-	878,223	-	-
General Government	915,415	-	915,415	-	-
Public Works	490,078	-	490,078	-	-
Emergencies	22,313	-	22,313	-	-
Economic/Job Development	25,478	-	25,478	-	-
Culture and Recreation	-	-	-	41,621	-
Unrestricted	286,694	849,040	1,135,734	-	78,960
Total Net Position	\$ 11,764,556	\$ 8,420,381	\$ 20,184,937	\$ 41,621	\$ 1,657,674

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	Library	Airport
PRIMARY GOVERNMENT									
Governmental Activities									
General Government	\$ 622,538	\$ 31,927	\$ -	\$ -	\$ (590,611)		\$ (590,611)		
Public Safety	170,149	-	-	-	(170,149)		(170,149)		
Public Works	610,389	-	267,852	2,434,004	2,091,467		2,091,467		
Culture and Recreation	25,648	-	-	-	(25,648)		(25,648)		
Conserv. of Natural Resources	13,363	-	-	-	(13,363)		(13,363)		
Emergency	7,988	-	-	-	(7,988)		(7,988)		
Interest & Fees on Long-Term Debt	317,567	-	-	-	(317,567)		(317,567)		
Total Governmental Activities	\$ 1,767,642	\$ 31,927	\$ 267,852	\$ 2,434,004	\$ 966,141		\$ 966,141		
Business-Type Activities									
Water	\$ 546,475	\$ 505,431	\$ -	\$ -	\$ -	\$ (41,044)	\$ (41,044)		
Sewer	143,235	141,168	-	-	-	(2,067)	-		
Garbage	90,402	88,638	-	-	-	(1,764)	-		
Total Business-Type Activities	\$ 780,112	\$ 735,237	\$ -	\$ -	\$ -	\$ (44,875)	\$ (41,044)		
Total Primary Government	\$ 2,547,754	\$ 767,164	\$ 267,852	\$ 2,434,004	\$ 966,141	\$ (44,875)	\$ 925,097		
COMPONENT UNITS									
Library	\$ 19,250	\$ 55	\$ 935	\$ -				\$ (18,260)	
Airport	164,304	11,259	175,783	-					22,738
Total Component Units	\$ 183,554	\$ 11,314	\$ 176,718	\$ -				\$ (18,260)	\$ 22,738
GENERAL REVENUES									
Taxes									
Property Taxes					\$ 206,230	\$ -	\$ 206,230	\$ 17,552	\$ 13,851
Sales Taxes					302,054	-	302,054	-	-
Non-Restricted Grants and Contributions					312,564	-	312,564	-	-
Unrestricted Investment Earnings					13,858	-	13,858	474	-
Miscellaneous					31,677	-	31,677	9,717	11
Transfers of Capital Assets					(88,746)	88,746	-	-	-
Net Cash Transfers					(33,318)	33,319	1	-	-
Total General Revenues and Transfers					\$ 744,319	\$ 122,065	\$ 866,384	\$ 27,743	\$ 13,862
Changes in Net Position					\$ 1,710,460	\$ 77,190	\$ 1,787,650	\$ 9,483	\$ 36,600
Net Position - January 1					\$ 2,949,630	\$ 8,301,272	\$ 11,250,902	\$ 32,138	\$ 1,621,074
Prior Period Adjustments					\$ 7,104,466	\$ 41,919	\$ 7,146,385	\$ -	\$ -
Net Position - January 1, as Restated					\$ 10,054,096	\$ 8,343,191	\$ 18,397,287	\$ 32,138	\$ 1,621,074
Net Position - December 31					\$ 11,764,556	\$ 8,420,381	\$ 20,184,937	\$ 41,621	\$ 1,657,674

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Balance Sheet – Governmental Funds
December 31, 2017

	General Fund	Special Revenue Fund	Capital Project Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 621,074	\$ 1,430,514	\$ 547,037	\$ -	\$ 2,598,625
Accounts Receivable	734	-	-	-	734
Intergovernmental Receivable	42,457	29,105	-	-	71,562
Taxes Receivable	3,441	-	-	-	3,441
Special Assessments Receivable	-	-	-	8,478,417	8,478,417
Due from Other Funds	-	-	359,036	-	359,036
Total Assets	\$ 667,706	\$ 1,459,619	\$ 906,073	\$ 8,478,417	\$ 11,511,815
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 12,080	\$ 861	\$ 27,850	\$ -	\$ 40,791
Salaries and Benefits Payable	9,896	2,049	-	-	11,945
Due to Other Funds	-	-	-	359,036	359,036
Total Liabilities	\$ 21,976	\$ 2,910	\$ 27,850	\$ 359,036	\$ 411,772
Deferred Inflows of Resources					
Uncollected Taxes Receivable	\$ 3,441	\$ -	\$ -	\$ -	\$ 3,441
Uncollected Special Assessments Receivable	-	-	-	8,478,417	8,478,417
Total Deferred Inflows of Resources	\$ 3,441	\$ -	\$ -	\$ 8,478,417	\$ 8,481,858
Total Liabilities & Deferred Inflows of Resources	\$ 25,417	\$ 2,910	\$ 27,850	\$ 8,837,453	\$ 8,893,630
Fund Balances					
Restricted					
Capital Projects Funds	\$ -	\$ -	\$ 532,182	\$ -	\$ 532,182
General Government	-	918,840	-	-	918,840
Public Works/Streets	-	490,078	-	-	490,078
Emergency	-	22,313	-	-	22,313
Economic Development	-	25,478	-	-	25,478
Assigned					
Public Works/Streets	-	-	346,041	-	346,041
Unassigned					
General Fund	642,289	-	-	-	642,289
Negative Fund Balances	-	-	-	(359,036)	(359,036)
Total Fund Balances	\$ 642,289	\$ 1,456,709	\$ 878,223	\$ (359,036)	\$ 2,618,185
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 667,706	\$ 1,459,619	\$ 906,073	\$ 8,478,417	\$ 11,511,815

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
December 31, 2017

Total Fund Balances for Governmental Funds		\$	2,618,185
Total <i>net position</i> reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		\$	11,141,478
Property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.			
Property Taxes Receivable	\$	3,441	
Special Assessments Receivable		<u>8,478,417</u>	8,481,858
Long-term liabilities 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.			
Long-Term Debt	\$	(10,416,162)	
Interest Payable		(57,378)	
Compensated Absences		<u>(3,425)</u>	<u>(10,476,965)</u>
Total Net Position of Governmental Activities		\$	<u>11,764,556</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
 For the Year Ended December 31, 2017

	General Fund	Special Revenue Fund	Capital Project Funds	Debt Service Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 202,784	\$ 5	\$ -	\$ -	\$ 202,789
Special Assessment Taxes	-	-	-	907,014	907,014
Sales Taxes	-	302,054	-	-	302,054
Licenses, Permits and Fees	21,018	-	-	-	21,018
Charges for Services	2,573	-	-	-	2,573
Intergovernmental	312,564	108,408	159,444	-	580,416
Fines, Forfeitures and Penalties	8,336	-	-	-	8,336
Interest	1,870	5,208	6,780	-	13,858
Miscellaneous	28,451	3,226	-	-	31,677
Total Revenues	\$ 577,596	\$ 418,901	\$ 166,224	\$ 907,014	\$ 2,069,735
EXPENDITURES					
Current					
General Government	\$ 472,647	\$ 145,183	\$ -	\$ -	\$ 617,830
Public Safety	170,149	-	-	-	170,149
Public Works	27,506	169,910	749,495	-	946,911
Culture and Recreation	17,906	-	-	-	17,906
Conservation of Natural Resources	13,363	-	-	-	13,363
Emergency	-	7,988	-	-	7,988
Debt Service					
Principal	-	33,820	-	685,363	719,183
Interest	-	1,282	42,520	246,600	290,402
Fees	-	-	530	22,325	22,855
Total Expenditures	\$ 701,571	\$ 358,183	\$ 792,545	\$ 954,288	\$ 2,806,587
Excess (Deficiency) of Revenues					
Over Expenditures	\$ (123,975)	\$ 60,718	\$ (626,321)	\$ (47,274)	\$ (736,852)
OTHER FINANCING SOURCES (USES)					
Transfers In	\$ -	\$ 37,603	\$ 585,188	\$ -	\$ 622,791
Transfers Out	-	(441,049)	(63,152)	(151,909)	(656,110)
Total Other Financing Sources and Uses	\$ -	\$ (403,446)	\$ 522,036	\$ (151,909)	\$ (33,319)
Net Change in Fund Balances	\$ (123,975)	\$ (342,728)	\$ (104,285)	\$ (199,183)	\$ (770,171)
Fund Balance - January 1	\$ 757,525	\$ 1,772,243	\$ (50,441)	\$ (159,853)	\$ 2,319,474
Prior Period Adjustment	\$ 8,739	\$ 27,194	\$ 1,032,949	\$ -	\$ 1,068,882
Fund Balance - January 1, as restated	\$ 766,264	\$ 1,799,437	\$ 982,508	\$ (159,853)	\$ 3,388,356
Fund Balance - December 31	\$ 642,289	\$ 1,456,709	\$ 878,223	\$ (359,036)	\$ 2,618,185

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2017

Net Change in *Fund Balances* - Total Governmental Funds **\$ (770,171)**

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 cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Current Year Capital Outlay	\$ 746,252	
Transfer to Enterprise	(88,745)	
Current Year Depreciation Expense	<u>(418,755)</u>	238,752

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in

Net Change in Compensated Absences	\$ (3,425)	
Net Change in Interest Payable	<u>3,130</u>	(295)

The proceeds of debt issuances are reported as other financing sources in governmental funds and contribute to change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Change in Bond Discount	\$ (7,440)	
Repayment of Long-Term Debt	<u>719,183</u>	711,743

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures.

Net Change in Taxes Receivable	\$ 3,441	
Net Change in Special Assessments Receivable	<u>1,526,990</u>	<u>1,530,431</u>

Change in Net Position of Governmental Activities **\$ 1,710,460**

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURNStatement of Net Position – Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Total
ASSETS				
Cash and Investments	\$ 283,240	\$ 492,280	\$ 53,970	\$ 829,490
Utility Billings Receivable	34,741	11,137	7,346	53,224
Capital Assets, Net	8,963,498	1,497,843	-	10,461,341
Total Assets	\$ 9,281,479	\$ 2,001,260	\$ 61,316	\$ 11,344,055
LIABILITIES				
Accounts Payable	\$ 8,505	\$ -	\$ -	\$ 8,505
Salaries Payable	4,588	-	-	4,588
Prepaid Receipts	5,997	-	-	5,997
Interest Payable	11,751	2,833	-	14,584
Long-Term Liabilities				
Due Within One Year				
Long-Term Debt	215,000	20,000	-	235,000
Due After One Year				
Long-Term Debt	2,250,000	405,000	-	2,655,000
Total Liabilities	\$ 2,495,841	\$ 427,833	\$ -	\$ 2,923,674
NET POSITION				
Net Investment in Capital Assets	\$ 6,498,498	\$ 1,072,843	\$ -	\$ 7,571,341
Unrestricted	287,140	500,584	61,316	849,040
Total Net Position	\$ 6,785,638	\$ 1,573,427	\$ 61,316	\$ 8,420,381

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
 For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Garbage Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 502,875	\$ 141,168	\$ 88,638	\$ 732,681
Miscellaneous	2,556	-	-	2,556
Total Operating Revenues	\$ 505,431	\$ 141,168	\$ 88,638	\$ 735,237
OPERATING EXPENSES				
Salaries and Wages	\$ 64,520	\$ 48,364	\$ -	\$ 112,884
Health Insurance	15,352	17,951	-	33,303
Utilities	23,269	2,663	-	25,932
Supplies, Maintenance, and Repairs	87,617	30,967	-	118,584
Contract	-	-	90,327	90,327
Other	31,016	1,589	75	32,680
Depreciation	273,921	30,771	-	304,692
Total Operating Expenses	\$ 495,695	\$ 132,305	\$ 90,402	\$ 718,402
Operating Income (Loss)	\$ 9,736	\$ 8,863	\$ (1,764)	\$ 16,835
NONOPERATING REVENUES (EXPENSES)				
Interest Expense and Service Charges	\$ (50,780)	\$ (10,930)	\$ -	\$ (61,710)
Income (Loss) Before Contributions and Transfers	\$ (41,044)	\$ (2,067)	\$ (1,764)	\$ (44,875)
TRANSFERS				
Transfers In	\$ 33,319	\$ -	\$ -	\$ 33,319
Transfers of Capital Assets	45,210	43,536	-	88,746
Total Transfers	\$ 78,529	\$ 43,536	\$ -	\$ 122,065
Change in Net Position	\$ 37,485	\$ 41,469	\$ (1,764)	\$ 77,190
Net Position - January 1	\$ 6,725,340	\$ 1,520,525	\$ 55,407	\$ 8,301,272
Prior Period Adjustment	\$ 22,813	\$ 11,433	\$ 7,673	\$ 41,919
Net Position - January 1, As Restated	\$ 6,748,153	\$ 1,531,958	\$ 63,080	\$ 8,343,191
Net Position - December 31	\$ 6,785,638	\$ 1,573,427	\$ 61,316	\$ 8,420,381

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Statement of Cash Flows – Proprietary Funds
 For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Sanitation Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	\$ 509,652	\$ 141,464	\$ 88,965	\$ 740,081
Payments to Suppliers	(139,020)	(35,219)	(90,402)	(264,641)
Payments to Employees	(82,369)	(66,315)	-	(148,684)
Other Receipts	2,556	-	-	2,556
Net Cash Provided (Used) by Operating Activities	\$ 290,819	\$ 39,930	\$ (1,437)	\$ 329,312
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	\$ 33,319	\$ -	\$ -	\$ 33,319
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Paid on Capital Debt	\$ (208,395)	\$ (16,629)	\$ -	\$ (225,024)
Interest and Fees Paid on Capital Debt	(51,860)	(11,041)	-	(62,901)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (260,255)	\$ (27,670)	\$ -	\$ (287,925)
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 63,883	\$ 12,260	\$ (1,437)	\$ 74,706
Cash and Cash Equivalents - January 1	\$ 759,357	\$1,000,020	\$ 55,407	\$ 1,814,784
Prior Period Adjustment	\$ (540,000)	\$ (520,000)	\$ -	\$ (1,060,000)
Cash and Cash Equivalents - January 1, as Restated	\$ 219,357	\$ 480,020	\$ 55,407	\$ 754,784
Cash and Cash Equivalents - December 31	\$ 283,240	\$ 492,280	\$ 53,970	\$ 829,490
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 9,736	\$ 8,863	\$ (1,764)	\$ 16,835
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation Expense	\$ 273,921	\$ 30,771	\$ -	\$ 304,692
Change in Assets and Liabilities				
Utility Billings Receivable	781	296	327	1,404
Salaries Payable	(2,224)	-	-	(2,224)
Accounts Payable	8,505	-	-	8,505
Unearned Revenue	100	-	-	100
Net Cash Provided (Used) by Operating Activities	\$ 290,819	\$ 39,930	\$ (1,437)	\$ 329,312

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURNStatement of Fiduciary Assets and Liabilities – Agency Funds
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Cash Equivalents	<u>\$ 18,495</u>	<u>\$ 21,687</u>
LIABILITIES		
Due to Other Entities	<u>\$ 18,495</u>	<u>\$ 21,687</u>

The notes to the financial statements are an integral part of this statement.

CITY OF WASHBURN

Notes to the Financial Statements
For the Years Ended December 31, 2018 and 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Washburn ("City") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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 City's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the 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 such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Based on these criteria, the component units discussed below is included within the City's reporting entity because of the significance of their operational or financial relationships with the City.

Component Unit

In conformity with accounting principles generally accepted in the United States of America, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Unit. The component unit column in the basic financial statements includes the financial data of the City's component units. These units are reported in separate columns to emphasize that it is legally separate from the City.

City of Washburn Airport. The City of Washburn Airport ("Airport") governing board is appointed by the City's governing body. The City's governing body has the authority to disapprove, amend, or approve the Airport's budget.

City of Washburn Library. The City of Washburn Library's ("Library") governing board is appointed by the City's governing body. The City's governing body has the authority to disapprove, amend, or approve the Library's budget.

B. Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the City (primary government) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. 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 non-exchange 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 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, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds including its fiduciary funds. Separate statements for each fund category—*governmental, proprietary and fiduciary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

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.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Debt Service Fund - This fund accounts for the costs of paying off the City's bond obligations. The major sources of revenues are special assessments.

Capital Projects Fund - This fund accounts for the costs of paying for the City's construction projects. The major sources of revenues are state grants/reimbursements.

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 in the City of Washburn.

Sewer Fund - This fund accounts for the activities of the City's sewer collection system.

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

Additionally, the City reports the following fund type:

Agency Funds. These funds account for assets by the City in a custodial capacity as an agent on behalf of others. The City's agency funds are used to account for property taxes collected on behalf of other governments.

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

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

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

D. Cash and Investments

Cash includes amounts in demand deposits and money market accounts.

The investments of the City during the years ended December 31, 2018 and 2017 consist of certificates of deposit stated at cost with maturities in excess of three months.

E. Capital Assets

Primary Government

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and garbage fund in the enterprise fund statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased 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.

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

Assets	Years
Buildings & Infrastructure	20-75
Machinery & Equipment	5 - 20
Land & Land Improvements	Indefinite

F. Compensated Absences

Full time employees earn vacation benefits from eight to sixteen hours per month, depending on tenure with the City. Employees can carry over a maximum of 160 hours of vacation at December 31 of each year.

Upon termination of employment, employees will be paid for vacation benefits that have accrued based on their current rate of pay. Vested or accumulated vacation leave is reported in the general long-term debt account group. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

G. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Balance

Fund Balance Spending Policy. It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the City to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

I. 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, as well as net of any related debt to purchase or finance capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted state and federal grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund.

J. 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.

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

NOTE 2: CHANGE IN ACCOUNTING PRINCIPLE

As of January 1, 2017, the financial statements are reported under United States Generally Accepted Accounting Principles (GAAP). Prior to this change, the City reported under the modified cash basis of accounting, which is another comprehensive basis of accounting. The GAAP method is preferable to the modified cash basis. The impact to beginning fund balances and net position can be seen in Note 3.

NOTE 3: PRIOR PERIOD ADJUSTMENTS

Governmental Activities

Net position of the primary government as of January 1, 2017 has been restated for the change in accounting principle, cash and special assessment bonds payable that were previously being reported in the Water and Sewer proprietary funds, as well as various other capital asset adjustments as shown below. The result of the adjustments increased the beginning net position of the City.

Beginning Net Position, as Previously Reported	\$ 2,949,630
Prior Period Adjustments	
Change in Accounting Principle (GAAP)	8,882
Uncertified Special Assessments	6,941,452
Capital Assets	167,936
Accumulated Depreciation	(13,804)
Cash	1,060,000
Special Assessment Bond Payable	(1,060,000)
Net Position January 1, Restated	\$ 10,054,096

Additionally, adjustments to the General Fund, Special Revenue Fund, and Capital Projects Fund governmental fund balances were necessary for the change in account principle as well as a cash adjustment to the Capital Projects Fund that was previously being reported in the Water and Sewer proprietary funds.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

	General Fund	Special Revenue Fund	Capital Project Fund
Beginning Fund Balance, as previously reported	\$ 757,525	\$ 1,772,243	\$ (50,441)
Prior Period Adjustments			
Change in Accounting Principle (GAAP)	8,739	27,194	(27,051)
Cash	-	-	1,060,000
Fund Balance January 1, as restated	\$ 766,264	\$ 1,799,437	\$ 982,508

Business-Type Activities

Net position of the proprietary funds as of January 1, 2017 has been restated for the change in accounting principle as well as for cash and special assessment bonds payable that should have been reported in the primary government's net position. The results of the adjustments increased the beginning net position of each of the proprietary funds.

	Water Fund	Sewer Fund	Garbage Fund	Total
Beginning Net Position, as previously reported	\$ 6,725,340	\$ 1,520,525	\$ 55,407	\$ 8,301,272
Prior Period Adjustments				
Change in Accounting Principle (GAAP)	22,813	11,433	7,673	41,919
Cash	(540,000)	(520,000)	-	(1,060,000)
Bond Payable	540,000	520,000	-	1,060,000
Net Position January 1, as restated	\$ 6,748,153	\$ 1,531,958	\$ 63,080	\$ 8,343,191

NOTE 4: DEPOSITS

Credit Risk

Credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota Statutes, 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.

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 another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2018, the City's carrying amount of deposits totaled \$3,490,100, and the bank balances totaled \$3,503,410. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

At year ended December 31, 2017, the City's carrying amount of deposits totaled \$3,465,528, and the bank balances totaled \$3,491,542. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2018, the Library's carrying amount of deposits totaled \$18,911, and the bank balances totaled \$19,505, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2017, the Library's carrying amount of deposits totaled \$25,294, and the bank balances totaled \$25,768, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2018, the Airport's carrying amount of deposits and bank balances totaled \$98,346, all of which were covered by Federal Depository Insurance.

At year ended December 31, 2017, the Airport's carrying amount of deposits and bank balances totaled \$78,669, all of which were covered by Federal Depository Insurance.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The City does not have a formal deposit policy that limits maturities as a means of managing exposure to potential fair value losses arising from increasing interest rates.

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

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

As of December 31, 2018, the City and the Library held certificates of deposit in the amounts of \$358,375 and 10,653, respectively, all of which are considered deposits.

As of December 31, 2017, the City and the Library held certificates of deposit in the amounts of \$353,050 and \$10,529, respectively, all of which are considered deposits.

NOTE 5: PROPERTY TAXES

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

CITY OF WASHBURN

Notes to the Financial Statements – Continued

NOTE 6: CAPITAL ASSETS

Primary Government

Governmental Activities

The following is a summary of changes in capital assets for the years ended 2018 and 2017:

Governmental Activities	Balance 1/1/18	Increases	Decreases	Transfers	Balance 12/31/18
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 159,619	\$ 197,786	\$ -	\$ -	\$ 357,405
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 13,103,788	\$ -	\$ -	\$ -	\$ 13,103,788
Machinery & Equipment	898,337	22,641	-	-	920,978
Total Capital Assets, Being Depreciated	\$ 14,002,125	\$ 22,641	\$ -	\$ -	\$ 14,024,766
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,654,204	\$ 350,129	\$ -	\$ -	\$ 3,004,333
Machinery & Equipment	366,061	50,631	-	-	416,692
Total Accumulated Depreciation	\$ 3,020,265	\$ 400,760	\$ -	\$ -	\$ 3,421,025
Total Capital Assets Being Depreciated, Net	\$ 10,981,860	\$ (378,119)	\$ -	\$ -	\$ 10,603,741
Total Capital Assets, Net	\$ 11,141,479	\$ (180,333)	\$ -	\$ -	\$ 10,961,146

Governmental Activities	Bal 1/1/17 Restated	Increases	Decreases	Transfers	Balance 12/31/17
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 1,670,471	\$ 537,500	\$ -	\$ (2,048,352)	\$ 159,619
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 10,947,201	\$ 196,980	\$ -	\$ 1,959,607	\$ 13,103,788
Machinery & Equipment	886,565	11,772	-	-	898,337
Total Capital Assets, Being Depreciated	\$ 11,833,766	\$ 208,752	\$ -	\$ 1,959,607	\$ 14,002,125
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,285,326	\$ 368,878	\$ -	\$ -	\$ 2,654,204
Machinery & Equipment	316,184	49,877	-	-	366,061
Total Accumulated Depreciation	\$ 2,601,510	\$ 418,755	\$ -	\$ -	\$ 3,020,265
Total Capital Assets Being Depreciated, Net	\$ 9,232,256	\$ (210,003)	\$ -	\$ 1,959,607	\$ 10,981,860
Total Capital Assets, Net	\$ 10,902,727	\$ 327,497	\$ -	\$ (88,745)	\$ 11,141,479

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

Governmental Activities	2018	2017
General Government	\$ 59,335	\$ 58,580
Public Works	333,683	352,433
Culture and Recreation	7,742	7,742
Total Depreciation Expense	\$ 400,760	\$ 418,755

CITY OF WASHBURN

Notes to the Financial Statements – Continued

Business-Type Activities

The following is a summary of changes in capital assets for the years ended 2018 and 2017:

Business-Type Activities	Balance 1/1/18	Increases	Decreases	Transfers	Balance 12/31/18
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 13,097,672	\$ -	\$ -	\$ -	\$ 13,097,672
Machinery & Equipment	66,674	-	-	-	66,674
Total Capital Assets, Being Depreciated	\$ 13,164,346	\$ -	\$ -	\$ -	\$ 13,164,346
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,656,213	\$ 298,628	\$ -	\$ -	\$ 2,954,841
Machinery & Equipment	46,792	6,064	-	-	52,856
Total Accumulated Depreciation	\$ 2,703,005	\$ 304,692	\$ -	\$ -	\$ 3,007,697
Total Capital Assets, Net	\$ 10,461,341	\$ (304,692)	\$ -	\$ -	\$ 10,156,649

Business-Type Activities	Balance 1/1/17	Increases	Decreases	Transfers	Balance 12/31/17
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 1,025,806	\$ -	\$ -	\$ (1,025,806)	\$ -
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 11,983,121	\$ -	\$ -	\$ 1,114,551	\$ 13,097,672
Machinery & Equipment	66,674	-	-	-	66,674
Total Capital Assets, Being Depreciated	\$ 12,049,795	\$ -	\$ -	\$ 1,114,551	\$ 13,164,346
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 2,357,586	\$ 298,627	\$ -	\$ -	\$ 2,656,213
Machinery & Equipment	40,727	6,065	-	-	46,792
Total Accumulated Depreciation	\$ 2,398,313	\$ 304,692	\$ -	\$ -	\$ 2,703,005
Total Capital Assets, Net	\$ 10,677,288	\$ (304,692)	\$ -	\$ 88,745	\$ 10,461,341

Discretely Presented Component Unit

The following is a summary of changes in capital assets for the years ended 2018 and 2017:

Airport	Balance 1/1/18	Increases	Decreases	Transfers	Balance 12/31/18
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 1,805,331	\$ -	\$ -	\$ -	\$ 1,805,331
Machinery & Equipment	108,954	-	-	-	108,954
Total Capital Assets, Being Depreciated	\$ 1,914,285	\$ -	\$ -	\$ -	\$ 1,914,285
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 274,128	\$ 55,354	\$ -	\$ -	\$ 329,482
Machinery & Equipment	61,443	5,597	-	-	67,040
Total Accumulated Depreciation	\$ 335,571	\$ 60,951	\$ -	\$ -	\$ 396,522
Total Capital Assets, Net	\$ 1,578,714	\$ (60,951)	\$ -	\$ -	\$ 1,517,763

CITY OF WASHBURN

Notes to the Financial Statements – Continued

Airport	Balance 1/1/17	Increases	Decreases	Transfers	Balance 12/31/17
<i>Capital assets, being depreciated</i>					
Buildings & Infrastructure	\$ 1,797,651	\$ 7,680	\$ -	\$ -	\$ 1,805,331
Machinery & Equipment	108,954	-	-	-	108,954
Total Capital Assets, Being Depreciated	\$ 1,906,605	\$ 7,680	\$ -	\$ -	\$ 1,914,285
<i>Less accumulated depreciation for</i>					
Buildings & Infrastructure	\$ 218,774	\$ 55,354	\$ -	\$ -	\$ 274,128
Machinery & Equipment	55,846	5,597	-	-	61,443
Total Accumulated Depreciation	\$ 274,620	\$ 60,951	\$ -	\$ -	\$ 335,571
Total Capital Assets, Net	\$ 1,631,985	\$ (53,271)	\$ -	\$ -	\$ 1,578,714

NOTE 7: LONG-TERM LIABILITIES

Primary Government

Governmental Activities

The following changes occurred in long-term liabilities for the years ended 2018 and 2017:

Governmental Activities	Balance 1/1/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Long-Term Debt					
Special Assessment Bonds	\$ 10,505,000	\$ -	\$ 835,000	\$ 9,670,000	\$ 770,000
Bond Discount	(88,838)	-	(7,439)	(81,399)	(7,440)
Total Long-Term Debt	\$ 10,416,162	\$ -	\$ 827,561	\$ 9,588,601	\$ 762,560
Compensated Absences *	\$ 3,425	\$ 403	\$ -	\$ 3,828	\$ 383
Total Long-Term Liabilities	\$ 10,419,587	\$ 403	\$ 827,561	\$ 9,592,429	\$ 762,943

Governmental Activities	Bal 1/1/17 Restated	Increases	Decreases	Balance 12/31/17	Due Within One Year
Long-Term Debt					
Leases	\$ 33,820	\$ -	\$ 33,820	\$ -	\$ -
Special Assessment Bonds	11,190,363	-	685,363	10,505,000	835,000
Bond Discount	(96,277)	-	(7,439)	(88,838)	(7,439)
Total Long-Term Debt	\$ 11,127,906	\$ -	\$ 711,744	\$ 10,416,162	\$ 827,561
Compensated Absences *	\$ -	\$ 3,425	\$ -	\$ 3,425	\$ 342
Total Long-Term Liabilities	\$ 11,127,906	\$ 3,425	\$ 711,744	\$ 10,419,587	\$ 827,903

* The change in compensated absences is shown as a net change due to changes in salary prohibit exact calculations.

CITY OF WASHBURN

Notes to the Financial Statements – Continued

Business-Type Activities

The following changes occurred in long-term liabilities for the years ended 2018 and 2017:

Business-Type Activities	Balance 1/1/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 2,890,000	\$ -	\$ 235,000	\$ 2,655,000	\$ 240,000

Business-Type Activities	Bal 1/1/17 Restated	Increases	Decreases	Balance 12/31/17	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 3,115,024	\$ -	\$ 225,024	\$ 2,890,000	\$ 235,000

The annual requirements to amortize the outstanding long-term debt at December 31, 2018 is as follows:

PRIMARY GOVERNMENT					
Governmental Activities				Business-Type Activities	
Year Ending December 31	Special Assessment Bonds Payable		Bond Discount	Bonds Payable	
	Principal	Interest		Principal	Interest
2019	\$ 770,000	\$ 259,372	\$ (7,439)	\$ 240,000	\$ 40,050
2020	765,000	242,254	(7,439)	245,000	36,225
2021	750,000	224,333	(7,439)	245,000	32,275
2022	750,000	205,247	(7,439)	250,000	28,325
2023	730,000	185,578	(6,844)	260,000	24,250
2024 - 2028	2,995,000	644,125	(27,831)	975,000	66,350
2029 - 2033	1,800,000	290,345	(9,427)	325,000	25,500
2034 - 2038	1,110,000	58,260	(7,541)	115,000	3,500
Total	\$ 9,670,000	\$ 2,109,514	\$ (81,399)	\$ 2,655,000	\$ 256,475

NOTE 8: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31, 2018 and 2017:

	2018		2017	
	Transfers In	Transfers Out	Transfers In	Transfers Out
Governmental Funds				
Special Revenue Fund	\$ 29,130	\$ 183,893	\$ 37,603	\$ 441,049
Debt Service Fund	-	-	-	151,909
Capital Project Fund	183,893	29,130	585,188	63,152
Business-Type Funds				
Water Fund	-	-	33,319	-
Total Transfers	\$ 213,023	\$ 213,023	\$ 656,110	\$ 656,110

CITY OF WASHBURN

Notes to the Financial Statements – Continued

Transfers are done primarily for the following reasons:

- Transfer unrestricted revenues to finance various programs.
- Transfer money to help finance various construction projects.

NOTE 9: RISK MANAGEMENT

The City 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 pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of \$4,000,000 per occurrence for general liability and for automobile, and \$1,707,554 for public assets (mobile equipment and portable property).

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 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 \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its 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 years.

NOTE 10: PENSION PLAN

The City’s employees are provided retirement benefits under a defined contribution money purchase plan with John Hancock Life Insurance company and American Funds. The City is only responsible for current contributions. All full-time employees of the City are provided similar benefits. The employer contributes 6.12% of eligible compensation. The employer’s portion was \$8,240 and \$14,692 for the years ending December 31, 2018 and 2017 respectively.

NOTE 11: DEFICIT FUND BALANCES

The City had the following deficit fund balances at December 21, 2018 and 2017:

	2018	2017
Debt Service Fund		
Special Assessment Fund	\$ (475,521)	\$ (359,036)

The City plans to eliminate these deficits with future revenue collections or transfers from other funds.

CITY OF WASHBURN

Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 210,101	\$ 210,101	\$ 201,968	\$ (8,133)
Licenses, Permits and Fees	31,650	31,650	22,374	(9,276)
Charges for Services	2,500	2,500	3,030	530
Intergovernmental	339,000	339,000	302,890	(36,110)
Fines, Forfeitures and Penalties	10,000	10,000	7,372	(2,628)
Interest	2,000	2,000	1,753	(247)
Miscellaneous	30,250	30,250	22,873	(7,377)
Total Revenues	\$ 625,501	\$ 625,501	\$ 562,260	\$ (63,241)
EXPENDITURES				
Current				
General Government	\$ 509,735	\$ 509,735	\$ 535,998	\$ (26,263)
Public Safety	184,787	184,787	164,626	20,161
Public Works	57,000	57,000	-	57,000
Culture & Recreation	13,500	13,500	13,500	-
Conservation of Natural Resources	10,474	10,474	-	10,474
Total Expenditures	\$ 775,496	\$ 775,496	\$ 714,124	\$ 61,372
Excess (Deficiency) of Revenues Over Expenditures	\$ (149,995)	\$ (149,995)	\$ (151,864)	\$ (1,869)
OTHER FINANCING SOURCES (USES)				
Transfers Out	\$ (62,250)	\$ (62,250)	\$ -	\$ 62,250
Net Change in Fund Balances	\$ (212,245)	\$ (212,245)	\$ (151,864)	\$ 60,381
Fund Balances - January 1	\$ 642,289	\$ 642,289	\$ 642,289	\$ -
Fund Balances - December 31	\$ 430,044	\$ 430,044	\$ 490,425	\$ 60,381

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF WASHBURN

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Sales Tax	\$ -	\$ -	\$ 238,235	\$ 238,235
Intergovernmental	105,000	105,000	98,198	(6,802)
Interest Income	-	-	4,308	4,308
Miscellaneous	40,000	40,000	2,078	(37,922)
Total Revenues	\$ 145,000	\$ 145,000	\$ 342,819	\$ 197,819
EXPENDITURES				
Current				
General Government	\$ -	\$ -	\$ 104,640	\$ (104,640)
Public Works	125,000	125,000	64,239	60,761
Economic Development	-	-	5,341	(5,341)
Emergency	-	-	170	(170)
Total Expenditures	\$ 125,000	\$ 125,000	\$ 174,390	\$ (49,390)
Excess (Deficiency) of Revenues Over Expenditures	\$ 20,000	\$ 20,000	\$ 168,429	\$ 148,429
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ 29,130	\$ 29,130
Transfers Out	-	-	(183,893)	(183,893)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ (154,763)	\$ (154,763)
Net Change in Fund Balances	\$ 20,000	\$ 20,000	\$ 13,666	\$ (6,334)
Fund Balances - January 1	\$ 1,456,709	\$ 1,456,709	\$ 1,456,709	\$ -
Fund Balances - December 31	\$ 1,476,709	\$ 1,476,709	\$ 1,470,375	\$ (6,334)

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF WASHBURN

Budgetary Comparison Schedule - General Fund
 For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 212,059	\$ 212,059	\$ 202,784	\$ (9,275)
Licenses, Permits and Fees	21,050	21,050	21,018	(32)
Charges for Services	2,500	2,500	2,573	73
Intergovernmental	268,500	268,500	312,564	44,064
Fines, Forfeitures and Penalties	10,000	10,000	8,336	(1,664)
Interest	3,500	3,500	1,870	(1,630)
Miscellaneous	8,250	8,250	28,451	20,201
Total Revenues	\$ 525,859	\$ 525,859	\$ 577,596	\$ 51,737
EXPENDITURES				
Current				
General Government	\$ 389,085	\$ 389,085	\$ 472,647	\$ (83,562)
Public Safety	170,149	170,149	170,149	-
Public Works	25,000	25,000	27,506	(2,506)
Culture & Recreation	14,450	14,450	17,906	(3,456)
Conservation of Natural Resources	11,890	11,890	13,363	(1,473)
Total Expenditures	\$ 610,574	\$ 610,574	\$ 701,571	\$ (90,997)
Excess (Deficiency) of Revenues Over Expenditures	\$ (84,715)	\$ (84,715)	\$ (123,975)	\$ (39,260)
Fund Balances - January 1	\$ 757,525	\$ 757,525	\$ 757,525	\$ -
Change of Accounting Principle Adjustment	\$ -	\$ -	\$ 8,739	\$ 8,739
Fund Balance - January 1, as restated	\$ 757,525	\$ 757,525	\$ 766,264	\$ 8,739
Fund Balances - December 31	\$ 672,810	\$ 672,810	\$ 642,289	\$ (30,521)

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF WASHBURN

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Sales Tax	\$ -	\$ -	\$ 302,059	\$ 302,059
Intergovernmental	92,000	92,000	108,408	16,408
Interest Income	-	-	5,208	5,208
Miscellaneous	-	-	3,226	3,226
Total Revenues	\$ 92,000	\$ 92,000	\$ 418,901	\$ 326,901
EXPENDITURES				
Current				
General Government	\$ -	\$ -	\$ 145,183	\$ (145,183)
Public Works	92,000	92,000	169,910	(77,910)
Emergency	-	-	7,988	(7,988)
Principal	-	-	33,820	(33,820)
Interest	-	-	1,282	(1,282)
Total Expenditures	\$ 92,000	\$ 92,000	\$ 358,183	\$ (266,183)
Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ -	\$ 60,718	\$ 60,718
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ 37,603	\$ 37,603
Transfers Out	-	-	(441,049)	(441,049)
Total Other Financing Sources and Uses	\$ -	\$ -	\$ (403,446)	\$ (403,446)
Net Change in Fund Balances	\$ -	\$ -	\$ (342,728)	\$ (342,728)
Fund Balances - January 1	\$ 1,772,243	\$ 1,772,243	\$ 1,772,243	\$ -
Change of Accounting Principle Adjustment	\$ -	\$ -	\$ 27,194	\$ (441,049)
Fund Balances - January 1 Restated	\$ 1,772,243	\$ 1,772,243	\$ 1,799,437	\$ (441,049)
Fund Balances - December 31	\$ 1,772,243	\$ 1,772,243	\$ 1,456,709	\$ (783,777)

The accompanying required supplementary information notes are an integral part of this schedule.

CITY OF WASHBURN

Notes to the Required Supplementary Information
For the Years Ended December 31, 2018 and 2017

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The governing board adopts an annual budget on a basis consistent with GAAP, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- The governing body of each municipality, annually or before September tenth, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. The governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

CITY OF WASHBURN

Notes to the Required Supplementary Information - Continued

NOTE 2: EXPENDITURES IN EXCESS OF BUDGET

During fiscal year 2018 and 2017, the City had the following fund expenditures in excess of budgeted amounts:

2018	Budget	Actual	Overspent
Special Revenue Fund	\$ 125,000	\$ 174,390	\$ (49,390)

2017	Budget	Actual	Overspent
General Fund	\$ 610,574	\$ 701,571	\$ (90,997)
Special Revenue Fund	92,000	358,183	(266,183)

No remedial action is anticipated or required regarding these excess expenditures.

CITY OF WASHBURN

Schedule of Fund Activity - Cash Basis
For the Year Ended December 31, 2018

	Balance 1/1/18	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12/31/18
GOVERNMENTAL FUNDS						
General Fund	\$ 637,330.19	\$ 606,202.98	\$ -	\$ -	\$ 702,192.99	\$ 541,340.18
Special Revenue Fund						
Highway Distribution Fund	\$ 97,211.37	\$ 109,280.87	\$ -	\$ -	\$ 65,083.17	\$ 141,409.07
Emergency Snow Fund	22,312.51	-	-	-	170.00	22,142.51
Employee Pension Fund	(17,850.54)	-	-	-	-	(17,850.54)
MMDA Savings	424,488.18	1,491.57	-	-	-	425,979.75
Sales & Use Tax	464,329.43	351,460.39	29,130.35	183,893.00	193,000.00	468,027.17
Lodging Tax	3,270.20	6,087.33	-	-	8,000.00	1,357.53
WTP Upgrade Account 2	457,284.05	1,603.55	-	-	-	458,887.60
Special Assess Assist	12,000.40	-	-	-	1,640.17	10,360.23
Sidewalk Fund	(72,590.25)	-	-	-	858.78	(73,449.03)
Store Front Improvement Grant	22,207.67	-	-	-	5,340.66	16,867.01
Total Special Revenue Fund	\$ 1,412,663.02	\$ 469,923.71	\$ 29,130.35	\$ 183,893.00	\$ 274,092.78	\$ 1,453,731.30
Capital Project Fund						
Project Account	\$ 1,437.88	\$ 139.90	\$ -	\$ -	\$ -	\$ 1,577.78
Project Fund	558,593.48	140,715.90	183,893.00	29,130.35	235,984.00	618,088.03
CDs	346,041.32	12,333.58	-	-	-	358,374.90
Total Capital Project Fund	\$ 906,072.68	\$ 153,189.38	\$ 183,893.00	\$ 29,130.35	\$ 235,984.00	\$ 978,040.71
Debt Service Fund						
Special Assessment Deficiency	\$ 164,390.09	\$ -	\$ -	\$ -	\$ -	\$ 164,390.09
Special Assessment Fund	(523,426.23)	1,016,782.31	-	-	1,133,267.25	(639,911.17)
Total Debt Service Fund	\$ (359,036.14)	\$ 1,016,782.31	\$ -	\$ -	\$ 1,133,267.25	\$ (475,521.08)
Total Governmental Funds	\$ 2,597,029.75	\$ 2,246,098.38	\$ 213,023.35	\$ 213,023.35	\$ 2,345,537.02	\$ 2,497,591.11
BUSINESS-TYPE FUNDS						
Water Fund	\$ 277,243.05	\$ 493,555.98	\$ -	\$ -	\$ 476,313.91	\$ 294,485.12
Sewer Fund	492,280.09	141,891.81	-	-	63,233.57	570,938.33
Garbage Fund	53,969.93	94,854.48	-	-	90,471.00	58,353.41
Total Business-Type Funds	\$ 823,493.07	\$ 730,302.27	\$ -	\$ -	\$ 630,018.48	\$ 923,776.86
AGENCY FUNDS						
Park District Fund	\$ 26,934.14	\$ -	\$ -	\$ -	\$ -	\$ 26,934.14
Airport Fund	(5,247.28)	17,756.37	-	-	20,948.00	(8,438.91)
Total Agency Funds	\$ 21,686.86	\$ 17,756.37	\$ -	\$ -	\$ 20,948.00	\$ 18,495.23
Total Primary Government	\$ 3,442,209.68	\$ 2,994,157.02	\$ 213,023.35	\$ 213,023.35	\$ 2,996,503.50	\$ 3,439,863.20

CITY OF WASHBURN

Schedule of Fund Activity - Cash Basis
For the Year Ended December 31, 2017

	Balance 1/1/17	Revenues	Transfers In	Transfers Out	Expenditures	Balance 12/31/17
GOVERNMENTAL FUNDS						
General Fund	\$ 779,280.63	\$ 569,468.34	\$ -	\$ -	\$ 711,418.78	\$ 637,330.19
Special Revenue Fund						
Highway Distribution Fund	\$ 97,407.97	\$ 107,253.88	\$ -	\$ -	\$ 107,450.48	\$ 97,211.37
Emergency Snow Fund	30,295.12	4.89	-	-	7,987.50	22,312.51
Employee Pension Fund	(17,850.54)	-	-	-	-	(17,850.54)
MMDA Savings	423,001.83	1,486.35	-	-	-	424,488.18
Sales & Use Tax	714,744.62	386,329.36	-	431,911.91	204,832.64	464,329.43
Lodging Tax	6,294.58	7,975.62	-	-	11,000.00	3,270.20
WTP Upgrade Account 2	455,821.97	1,462.08	-	-	-	457,284.05
Special Assess Assist	5,955.41	-	12,602.58	-	6,557.59	12,000.40
Sidewalk Fund	38,721.00	-	-	9,136.85	102,174.40	(72,590.25)
Store Front Improvement Grant	-	-	25,000.00	-	2,792.33	22,207.67
Total Special Revenue Fund	\$ 1,754,391.96	\$ 504,512.18	\$ 37,602.58	\$ 441,048.76	\$ 442,794.94	\$ 1,412,663.02
Capital Project Fund						
Project Account	\$ 1,025.30	\$ 412.58	\$ -	\$ -	\$ -	\$ 1,437.88
Project Fund	668,860.15	647,671.62	585,187.97	63,152.06	1,279,974.20	558,593.48
CDs	339,673.73	6,367.59	-	-	-	346,041.32
Total Capital Project Fund	\$ 1,009,559.18	\$ 654,451.79	\$ 585,187.97	\$ 63,152.06	\$ 1,279,974.20	\$ 906,072.68
Debt Service Fund						
Special Assessment Deficiency	\$ 164,383.18	\$ 6.91	\$ -	\$ -	\$ -	\$ 164,390.09
Special Assessment Fund	(324,236.29)	907,006.78	-	151,909.14	954,287.58	(523,426.23)
Total Debt Service Fund	\$ (159,853.11)	\$ 907,013.69	\$ -	\$ 151,909.14	\$ 954,287.58	\$ (359,036.14)
Total Governmental Funds	\$ 3,383,378.66	\$ 2,635,446.00	\$ 622,790.55	\$ 656,109.96	\$ 3,388,475.50	\$ 2,597,029.75
BUSINESS-TYPE FUNDS						
Water Fund	\$ 219,356.93	\$ 506,211.19	\$ 33,319.41	\$ -	\$ 481,644.48	\$ 277,243.05
Sewer Fund	480,019.85	141,463.91	-	-	129,203.67	492,280.09
Garbage Fund	55,407.13	88,964.80	-	-	90,402.00	53,969.93
Total Business-Type Funds	\$ 754,783.91	\$ 736,639.90	\$ 33,319.41	\$ -	\$ 701,250.15	\$ 823,493.07
AGENCY FUNDS						
Park District Fund	\$ -	\$ 26,934.14	\$ -	\$ -	\$ -	\$ 26,934.14
Airport Fund	(4,525.87)	17,358.59	-	-	18,080.00	(5,247.28)
Total Agency Funds	\$ (4,525.87)	\$ 44,292.73	\$ -	\$ -	\$ 18,080.00	\$ 21,686.86
Total Primary Government	\$ 4,133,636.70	\$ 3,416,378.63	\$ 656,109.96	\$ 656,109.96	\$ 4,107,805.65	\$ 3,442,209.68

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division
FARGO OFFICE
MANAGER – CRAIG HASHBARGER
Phone (701)239-7250

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

**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***

Independent Auditor's Report

Board of City Commissioners
City of Washburn
Washburn, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn 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 Washburn's basic financial statements, and have issued our report thereon dated March 7, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *schedule of audit findings*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-001, 2018-002, 2018-003, 2018-004, and 2018-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *schedule of audit findings* as items 2018-006, 2018-007, 2018-008, 2018-009, and 2018-010 to be significant deficiencies.

CITY OF WASHBURN

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Washburn’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 audit findings* as item 2018-006.

City of Washburn’s Response to Findings

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

Purpose of this Report

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

/s/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 7, 2019

CITY OF WASHBURN

Summary of Auditor's Results

For the Years Ended December 31, 2018 and 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Units	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting

Material weaknesses identified?	<u> X </u> Yes	<u> </u> None Noted
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> None Noted
Noncompliance material to financial statements noted?	<u> X </u> Yes	<u> </u> None Noted

CITY OF WASHBURN

Schedule of Audit Findings

For the Years Ended December 31, 2018 and 2017

Section II - Financial Statement Findings

2018-001 – FINANCIAL STATEMENT PREPARATION

Condition

The City of Washburn does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying note disclosures, for external reporting. Thus, management has elected to have the financial statements and note disclosures be prepared by the auditors.

Criteria

Management of the City of Washburn is responsible for establishing proper internal control over the preparation of Washburn's annual financial statements to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with the GAAP basis of accounting.

Cause

This deficiency is due to limited resources coupled with the fact that City of Washburn may not know how to prepare basic financial statements that comply with GAAP.

Effect

This increases the risk of material misstatement of the City's financial statements.

Recommendation

We recognize the City of Washburn is not staffed with personnel fully knowledgeable of reporting requirements under the GAAP basis of accounting. However, it is important that they are aware of this weakness and that management accepts responsibility for the preparation and fair presentation of the financial statements in accordance with the GAAP basis of accounting, even if the auditor assisted in drafting those financial statements.

City of Washburn's Response

Agree. Management will obtain further knowledge of GAAP in order to create financial statements in the future.

2018-002 – ADJUSTING JOURNAL ENTRIES

Condition

Material auditor-identified adjusting entries to the financial statements were proposed to properly reflect the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Criteria

City of Washburn is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the GAAP basis of accounting.

Cause

Management of City of Washburn does not have adequate resources to obtain proper internal controls and training to ensure fair presentation of the City of Washburn's financial statements in accordance with the GAAP basis of accounting.

Effect

Inadequate internal controls over recording of transactions affects City of Washburn’s ability to detect misstatements in amounts that could be material in relation to the financial statements.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit. We recommend the City of Washburn review its current training system to determine if it is cost effective to obtain this knowledge internally.

City of Washburn’s Response

Agree. The City will review its current training system.

2018-003 – LACK OF SEGREGATION OF DUTIES

Condition

The City of Washburn and the related component units have limited personnel responsible for most accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

Criteria

Internal control guidance provided by the Committee of Sponsoring Organizations (COSO) indicate that the following functions should be separated: custody of assets, posting, reconciliation, and authorization.

Cause

The City of Washburn and the component units have limited financial resources which make segregating duties (hiring additional staff, etc) impracticable.

Effect

Limited segregation of duties exposes the City of Washburn and the component units to risk of loss of assets, potential liabilities, and damage to the reputation, whether due to error or fraud.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- The governing board should approve all expenditures.
- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

City of Washburn’s Response

Agree. If/when it becomes feasible to segregate to additional personnel, it will be done.

2018-004 – IMPROPER FUND TRANSFERS

Condition

It was found that the City of Washburn was misclassifying transfers as miscellaneous revenues and expenses. The City of Washburn was also recording a miscellaneous expense and miscellaneous revenue for bank transfers within the same fund. In 2017, 504,201 needed to be reclassified as transfers in and out instead of miscellaneous revenues and expenses. Also, in 2017, \$568,229 that related to bank transfers needed to be removed from both miscellaneous revenues and miscellaneous expenses for various funds to properly state revenues and expenditures in those funds. In 2018, \$213,023 needed to be reclassified as transfers in and out instead of miscellaneous revenues and expenses. Also, in 2018, \$98,000 that related to bank transfers needed to be removed from both miscellaneous revenues and miscellaneous expenses for various funds to properly state revenues and expenditures in those funds.

Criteria

The City of Washburn reports the financial statements under Generally Accepted Accounting Principles, which requires revenues, expenditures, and transfers to be properly reported and free from material misstatement.

Cause

Management was unaware that this transfer method was not in compliance with Generally Accepted Accounting Principles.

Effect

The financial statements would have been materially misstated if they were not corrected.

Recommendation

We recommend that the City of Washburn stop using miscellaneous revenue/expenses to record bank transfers within the same fund. We also recommend that the City use a transfer in and out line item when recording transfers between funds.

City of Washburn’s Response

Agree. The City has already taken steps to reduce the usage of the miscellaneous expense and revenue line items.

2018-005 – SPECIAL ASSESSMENT REPORTING

Condition

The City was unsure of the process surrounding special assessments and was unable to provide a listing of the uncertified special assessments receivable balances at year end.

Criteria

Management of the City of Washburn is responsible for establishing proper internal control over the City’s activities to ensure that financial statements and note disclosures are reliable, accurate, free of material misstatement, and in accordance with the GAAP basis of accounting.

Cause

The City may not be charging taxpayers enough to cover the bond payments or if the taxpayers had prepaid their specials, those special payments could have been deposited into the wrong fund.

Effect

The City's special assessment fund balance has been growing negatively in the past few years. At the end of 2016, the special assessment fund had a negative balance of \$324,236 and at the end of 2018 that balance has grown to a negative \$639,911 balance based on the City's trial balance reports. These issues surrounding special assessments may create a material liability for the City if they are not addressed.

Recommendation

We recommend that the City review the special assessment process and the outstanding balance of all special assessments to ensure appropriateness and accuracy. We further recommend to review the negative balance in its special assessment fund to ensure the accuracy of prior year transactions and collections.

City of Washburn's Response

Agree. The City will need to review the special assessment fund and most likely the project fund to correct the negative balances.

2018-006 – SPECIAL ASSESSMENT VIOLATIONS

Condition

The City has not setup a separate fund for each special assessment bond that has been issued.

Criteria

NDCC 40-24-18 states, "All special assessments and taxes levied and other revenues pledged under the provisions of this title to pay the cost of an improvement shall constitute a fund for the payment of such cost, including all principal of and interest on warrants and other obligations issued by the municipality to finance the improvement, and shall be diverted to no other purpose. The city auditor shall hold all moneys received for any such fund as a special fund to be applied to payment for the improvement. Each such fund shall be designated by the name and number of the improvement district in or for which said special assessments, taxes, and revenues are collected. When all principal and interest on warrants and other obligations of the fund have been fully paid, all moneys remaining in a fund may be transferred into the general fund of the municipality".

Cause

Management was unaware they were required to setup a separate fund for each individual bond issuance.

Effect

This is a violation of Century Code 40-24-18 as well as various bond agreement covenants which state that the bond payments should be made out of the corresponding bond fund. Not having separate bond funds setup increases the risk of material misstatement due to fraud or error.

Recommendation

We recommend that the City setup funds for each outstanding special assessment in order to be in compliance with NDCC 40-24-18.

City of Washburn's Response

Agree. This will need to be done once the review of this fund is complete.

2018-007 – INADEQUATE BOARD APPROVAL OF INVOICES

Condition

The City of Washburn minutes do not consistently include a complete listing of invoices. We noted several check numbers which were never included in the minutes and thus were not properly approved.

Criteria

NDCC 40-01-12 states, “No account or claim against a municipality to be paid from any fund, including a municipal utilities fund, shall be allowed by the governing body thereof until a full itemized statement in writing has been filed with the governing body or unless otherwise authorized by the governing body pursuant to contract or other action. The governing body, in its discretion, may require the filing of any additional information which it may deem necessary to the proper understanding and audit of any claim or account and it may require the filing of a sworn statement in such form as it may prescribe. Every account or claim which is allowed by the governing body shall be shown in the minutes of the proceedings of the governing body except that wages and salaries of persons employed by the city may be consolidated and allowed in one order as provided by subsection 15 of section 40-16-03 and reference made in the proceedings of the governing body to the payroll record certified to the city auditor.”

Cause

Management was unaware that some invoices were not approved in the minutes.

Effect

Without adequate reviewing and approving of Washburn’s expenditures, the City exposes itself to risk of loss of assets, potential liabilities, and damage to the City’s reputation, whether or not due to error or fraud.

Recommendation

We recommend that the governing board have the physical invoices on hand and review a detailed list of invoices, include the list in the minutes, and make a formal approval of the detailed list of invoices during the board meetings. Furthermore, we recommend that this list be in chronological order and not have lapses in numbers from one month to the next to ensure all invoices are appropriate and approved before payment.

City of Washburn’s Response

Agree. The board will review all invoices.

2018-008 – INADEQUATE VOIDED CHECK CONTROLS

Condition

Currently, there are checks that are voided due to printer malfunction, printer jam, or because they were incorrectly written. It was found that the City has not been properly voiding the checks in the general ledger. It was also noted that the general ledger did not include one of the checks selected during testing and physical checks were not properly defaced to prevent future use.

Criteria

Strong internal control over voided checks are necessary and appropriate to ensure the proper procedures and controls are in place to decrease misappropriation of assets due to error or fraud.

Cause

The City may have overlooked the vulnerability of the current process surrounding voided checks.

Effect

The City has potential increased risks of loss due to error or fraud.

Recommendation

We recommend that the City of Washburn review and improve the current process surrounding voiding checks to ensure voided checks are properly defaced to prevent future use.

City of Washburn’s Response

Agree. The City’s software does not allow them to void the check in the system, but the City will start voiding the physical copy of the check.

2018-009 – VACATION LEAVE PAYOUT

Condition

The compensated absences payout for three employees that left during 2018 were paid for benefits that they had not yet earned.

Criteria

The City’s policy manual states that leave is earned per month and it is based on a schedule provided in the handbook.

Cause

There is a lack of internal controls surrounding the compensated absences function. The City was not in compliance with its own policy.

Effect

The City has been providing its employees with a full year of vacation leave at the beginning of the year even though the policy says that they should be accruing vacation throughout the year. The employees left early in the year but were paid out their vacation for the full balance even though they had not yet earned a substantial amount of the vacation hours. This led to the employees getting paid an additional \$6,807 collectively and led to one employee using 24.5 hours of vacation that had not been earned.

Recommendation

We recommend that the City of Washburn review its policy manual to ensure proper reporting of staff vacation leave earning and vacation leave payout.

City of Washburn’s Response

Agree. The City will review the policy manual. The City has already taken steps to correct the reporting of leave balances.

2018-010 – FRAUD RISK ASSESSMENT

Condition

The City of Washburn does not currently prepare a fraud risk assessment of the entire entity.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the COSO framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Cause

The City may not have considered preparing a fraud risk assessment.

CITY OF WASHBURN

Schedule of Audit Findings – Continued

Effect

If the City does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Recommendation

We recommend that the City prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

City of Washburn's Response

Agree. The City will perform a fraud risk assessment.



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO OFFICE BRANCH
1655 43RD STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

GOVERNANCE COMMUNICATION

Board of City Commissioners
City of Washburn
Washburn, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Washburn, North Dakota, for the years ended December 31, 2018 and 2017 which collectively comprise the City of Washburn's basic financial statements, and have issued our report thereon dated March 7, 2019. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated November 8, 2018, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Washburn's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Washburn's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Washburn are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2018 and 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules below list all misstatements detected as a result of audit procedures that were corrected by management.

2018 ADJUSTMENTS		
GOVERNMENTAL ACTIVITIES		
Client Provided Adjustments		
Accounts Receivable	1,749	
Revenue		1,749
Expenditures	25,219	
Accounts Payable		24,693
Salaries Payable		526
Audit Adjustments		
Revenues	98,000	
Expenditures		98,000
Revenues	213,023	
Expenditures		
Transfers In		213,023
Transfers Out	213,023	
Revenue		4,130
Expenditures		208,893
Revenue	2,500	
Buildings		2,500
Expenditures	4,397	
Benefits Payable		4,397
Due From County	12,974	
Revenue		12,974
Expenses	69,205	
Revenue		174
Net Position		69,031
Net Position	10,801	
Retirement Liability	17,851	
Benefits Payable		28,652
Uncertified Special Assessments	7,885,647	
Net Position		7,885,647

BUSINESS-TYPE - WATER

Client Provided Adjustments

Utility Billings Receivable	39,293	
Revenues		39,293
Expenses	15,091	
Accounts Payable		14,779
Salaries Payable		312

BUSINESS-TYPE - SEWER

Client Provided Adjustments

Utility Billings Receivable	12,843	
Revenues		12,843

BUSINESS-TYPE - GARBAGE

Audit Adjustments

Utility Billings Receivable	7,371	
Revenues		7,371

**2017 ADJUSTMENTS
 GOVERNMENTAL ACTIVITIES**

Client Provided Adjustments

Intergovernmental Receivable	71,562	
Accounts Receivable	734	
Revenue		72,296
Expenditures	47,238	
Accounts Payable		40,791
Salaries Payable		6,447

Audit Adjustments

Revenues	568,229	
Expenditures		568,229
Revenues	461,745	
Expenditures	9,137	
Transfers In		470,882
Transfers Out	504,201	
Expenditures		504,201
Net Position	3,903	
Buildings	2,500	
Retirement Liability	17,851	
Benefits Payable		24,254
Uncertified Special Assessments	8,452,712	
Net Position		8,452,712

BUSINESS-TYPE - WATER

Client Provided Adjustments

Utility Billings Receivable	34,741	
Revenues		34,741
Expenses	13,093	
Accounts Payable		8,505
Salaries Payable		4,588

BUSINESS-TYPE - SEWER

Client Provided Adjustments

Utility Billings Receivable	11,137	
Revenues		11,137

BUSINESS-TYPE - GARBAGE

Audit Adjustments

Utility Billings Receivable	7,347	
Revenues		7,347

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 7, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * *

LACK OF POLICIES

Based on discussions with management, it was found that the City of Washburn does not have formal accounting policies related to capital assets, fund balance, use of credit cards, and fraud mitigation. Management was unaware that these various policies are needed to have a strong system of internal controls. Without having the policies in place, the City of Washburn could have financial misstatements or asset misappropriation.

Internal control guidance provided by the Committee of Sponsoring Organizations (COSO) indicate that an effective internal control system has five components: control environment, risk assessment, control activities, information and communication, and monitoring. Without having various accounting policies in place, the City is missing elements of the control environment and control activities.

It is recommended that management create or approve accounting policies for capital assets, fund balance, use of credit card, and fraud mitigation.

* * * * *

This information is intended solely for the use of the Board of City Commissioners and management of the City of Washburn, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of the City of Washburn for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of Washburn.

/s/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
March 7, 2019

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of Local Government Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2220