

**CITY OF FAIRMOUNT
Fairmount, North Dakota**

**AUDITED FINANCIAL STATEMENTS
Year Ended December 31, 2016**

Nadine Julson, LLC

CITY OF FAIRMOUNT
Fairmount, North Dakota

TABLE OF CONTENTS
December 31, 2016

	<u>Page(s)</u>
Official Directory	1
Independent Auditor's Report	2-3
Management Discussion and Analysis	4-8
BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	9
Statement of Activities - Modified Cash Basis	10
Balance Sheet - Modified Cash Basis - Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Modified Cash Basis - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds to the Statement of Activities - Modified Cash Basis	14
Statement of Net Position - Modified Cash Basis - Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	16
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	17
Notes to Financial Statements	18-26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Modified Cash Basis - General Fund	27
Budgetary Comparison Schedule - Modified Cash Basis - Street Fund	28
Notes to Required Supplementary Information	29
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
Schedule of Findings and Questioned Costs	30-31
Schedule of Prior Audit Findings	32-33
	34

CITY OF FAIRMOUNT
Fairmount, North Dakota

OFFICIAL DIRECTORY
December 31, 2016

Jon Nelk	Mayor
Chuck Campbell	Council Member
Cassandra Metcalf	Council Member
Rena Swanson	Council Member
Leo Taylor	Council Member
Bev Steffens	City Auditor



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Fairmount
Fairmount, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, and each major fund of the City of Fairmount, Fairmount, North Dakota as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, and each major fund, of the City of Fairmount, Fairmount, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4–8 and 27–28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a reported dated August 31, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Fairmount's internal control over financial reporting and compliance.



Nadine Julson, LLC
Wahpeton, North Dakota
August 31, 2017

CITY OF FAIRMOUNT
Fairmount, North Dakota

Management Discussion and Analysis
Year Ended December 31, 2016

As management of the City of Fairmount, we are pleased to offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider it in conjunction with the additional information presented in the accompanying letter of transmittal, the basic financial statements, the fund financial statements, and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended 2016 are as follows:

The other portion of the sidewalk/curb/gutter project on Main Avenue was completed. This was from First Street South to Second Street South to include the Fairmount Community Center handicap area, corner of Third Street South and Main Avenue, and the Front of City Hall to eliminate the step and go out to the sidewalk/street, making it handicap accessible.

The City granted Vantage Point (Red River Communications) a Cable Franchise for boring of fiber optic cable in the City.

Maguire Iron was contracted to paint tower interior spots that needed upkeep and also the exterior of the water tower.

A new mower has also been purchased for mowing in the City, trying to keep up with equipment change as it is needed.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

A. Government-wide financial statements

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

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

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

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

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

CITY OF FAIRMOUNT
Management Discussion and Analysis - Continued

B. Fund financial statements

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

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

Governmental funds

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

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

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

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

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

Proprietary funds

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

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

C. Notes to Financial Statements

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the City's net position as of December 31, 2016 and 2015. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fairmount, net position increased by \$72,203 for the year ending December 31, 2016.

The City's net position at December 31, 2016 is segregated into three separate categories. Net position invested in capital assets (net of related debt) are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted net positions are available to meet the City's ongoing obligations.

CITY OF FAIRMOUNT
Management Discussion and Analysis - Continued

Table I
Net Position
December 31,

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current Assets	\$ 315,647	\$ 192,018	\$ 560,554	\$ 539,983	\$ 876,201	\$ 732,001
Capital Assets (net of depreciation)	233,056	204,891	1,416,052	1,498,586	1,649,108	1,703,477
Total Assets	548,703	396,909	1,976,606	2,038,569	2,525,309	2,435,478
Liabilities						
Current Liabilities	105,023	-	224,176	206,571	329,199	206,571
Long-term Liabilities	-	-	661,000	766,000	661,000	766,000
Total Liabilities	105,023	-	885,176	972,571	990,199	972,571
Net Position						
Net Investment in Capital Assets	233,056	204,891	650,052	632,586	883,108	837,477
Restricted	-	-	235,797	239,170	235,797	239,170
Unrestricted	210,624	192,018	205,581	194,242	416,205	386,260
Total Net Position	\$ 443,680	\$ 396,909	\$ 1,091,430	\$ 1,065,998	\$ 1,535,110	\$ 1,462,907

Table II shows the changes in net position for the fiscal years ended December 31, 2016 and 2015.

Table II
Changes in Net Position
For the Years Ended December 31,

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for Services	\$ 1,590	\$ 1,561	\$ 155,399	\$ 148,237	\$ 156,989	\$ 149,798
Operating Grants and Contributions	118,477	128,222	-	51,480	118,477	179,702
General Revenues						
Property Taxes	70,223	34,575	62,123	67,377	132,346	101,952
Interest and Miscellaneous Earnings	4,335	7,901	548	734	4,883	8,635
Total Revenues	194,625	172,259	218,070	267,828	412,695	440,087
Expenses						
General Government	75,290	73,732	-	-	75,290	73,732
Public Safety	66,047	60,157	-	-	66,047	60,157
Special Assessments	6,517	7,043	-	-	6,517	7,043
Water and Sewer	-	-	164,078	139,933	164,078	139,933
Garbage	-	-	28,560	28,642	28,560	28,642
Total Expenses	147,854	140,932	192,638	168,575	340,492	309,507
Change in Net Position	\$ 46,771	\$ 31,327	\$ 25,432	\$ 99,253	\$ 72,203	\$ 130,580

CITY OF FAIRMOUNT
Management Discussion and Analysis - Continued

Financial Analysis of the Government's Funds

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

Governmental Funds

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

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$210,624.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$315,647. The fund balance of the City's general fund increased by \$31,605.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the enterprise funds was \$205,581.

General Fund Budgetary Highlights

For the year ending December 31, 2016, revenues were more than budgetary estimates by \$39,743. The actual expenditures were less than budgetary estimates by \$7,121; the variance is a result of under spending their budgets. The change in fund balance was less than budgetary estimates by \$11,265, the variance is due to a transfer from the General Fund to the Street Fund for curbs, gutters and sidewalks and the purchase of a tractor mower.

Additional information on the City of Fairmount's budget can be found in Note 11 of the audited financial statements that follow this analysis.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, amounts to \$1,649,108 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and infrastructure. Capital assets decreased by \$54,369. Major capital asset events during the current fiscal year included a tractor purchase and sidewalk, curb, and gutter improvements.

Table III
Capital Assets
(Net of Accumulated Depreciation)
December 31,

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 25,000	\$ 25,000	\$ 7,000	\$ 7,000	\$ 32,000	\$ 32,000
Buildings and Improvements	161,912	148,082	-	-	161,912	148,082
Equipment	46,144	31,809	-	-	46,144	31,809
Infrastructure	-	-	1,409,052	1,491,586	1,409,052	1,491,586
Total Capital Assets (net of accumulated depreciation)	<u>233,056</u>	<u>204,891</u>	<u>1,416,052</u>	<u>1,498,586</u>	<u>1,649,108</u>	<u>1,703,477</u>

Additional information on the capital assets can be found in Note 5 to the financial statements.

CITY OF FAIRMOUNT
Management Discussion and Analysis - Continued

Debt Administration

As of December 31, 2016, the City of Fairmount had \$766,000 of total debt, a decrease of \$100,000 from the previous year.

Table V
Outstanding Debt
 June 30,

	Total Outstanding		Due Within One Year	
	2016	2015	2016	2015
<u>Business-type Activities</u>				
Revenue Bonds	\$ 766,000	\$ 866,000	\$ 105,000	\$ 100,000

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

For the Future

The City is working on a Homeland Security Grant to purchase a new siren, to be placed in the same location as the previous siren.

In addition, the City is in the process of having a grant written to obtain monies for tree removal and planting throughout the City to replace those trees lost in the past several years. This will include a City Tree Ordinance and also working towards being a Tree City USA.

Contacting the City's Financial Management

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

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

December 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Investments	\$ 91,448	\$ 324,757	\$ 416,205
Restricted Cash	-	235,797	235,797
Due from Other Funds	224,199	-	224,199
Total Current Assets	315,647	560,554	876,201
Capital Assets			
Non-depreciable			
Land	25,000	7,000	32,000
Depreciable, net of accumulated depreciation			
Buildings	13,872	-	13,872
Improvements	148,040	-	148,040
Equipment	46,144	-	46,144
Infrastructure	-	1,409,052	1,409,052
Total Capital Assets	233,056	1,416,052	1,649,108
Total Assets	548,703	1,976,606	2,525,309
LIABILITIES			
Due to Other Funds	105,023	119,176	224,199
Current Portion of Long-term Debt:			
Bonds Payable	-	105,000	105,000
Due After One Year:			
Bonds Payable	-	661,000	661,000
Total Liabilities	105,023	885,176	990,199
NET POSITION			
Net Investment in Capital Assets	233,056	650,052	883,108
Restricted	-	235,797	235,797
Unrestricted	210,624	205,581	416,205
Total Net Position	\$ 443,680	\$ 1,091,430	\$ 1,535,110

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
General Government	\$ 75,290	\$ 1,590	\$ 96,355	\$ 22,655	\$ -	\$ 22,655
Public Safety	66,047	-	22,122	(43,925)	-	(43,925)
Special Assessments	6,517	-	-	(6,517)	-	(6,517)
Total Governmental Activities	147,854	1,590	118,477	(27,787)	-	(27,787)
Business-type Activities						
Water and Sewer	164,078	127,739	-	-	(36,339)	(36,339)
Garbage	28,560	27,660	-	-	(900)	(900)
Total Business-type Activities	192,638	155,399	-	-	(37,239)	(37,239)
Total Primary Government	\$ 340,492	\$ 156,989	\$ 118,477	(27,787)	(37,239)	(65,026)
General Revenues:						
Taxes:						
Taxes Levied for General Purposes				69,083	-	69,083
Taxes Levied for Special Revenues				1,140	-	1,140
Taxes Levied for Special Assessments				-	62,123	62,123
Interest and Investment Earnings				878	548	1,426
Miscellaneous				3,457	-	3,457
Total General Revenues				74,558	62,671	137,229
Change in Net Position				46,771	25,432	72,203
Net Position, Beginning of Year				396,909	1,065,998	1,462,907
Net Position, End of Year				\$ 443,680	\$ 1,091,430	\$ 1,535,110

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2016

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Street Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 91,448	\$ -	\$ 91,448
Due from Other Funds	<u>224,199</u>	<u>-</u>	<u>224,199</u>
Total Assets	<u>\$ 315,647</u>	<u>\$ -</u>	<u>\$ 315,647</u>
LIABILITIES			
Due to Other Funds	\$ -	\$ 105,023	\$ 105,023
FUND BALANCE (DEFICIT)			
Unassigned	<u>315,647</u>	<u>(105,023)</u>	<u>210,624</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 315,647</u>	<u>\$ -</u>	<u>\$ 315,647</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2016

Total Fund Balances - Governmental Funds \$ 210,624

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

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

Cost of Capital Assets	1,101,963	
Less Accumulated Depreciation	<u>(868,907)</u>	
Net Capital Assets		<u>233,056</u>
Net Position of Governmental Activities		<u>\$ 443,680</u>

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	<u>Major Funds</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Street Fund</u>	
REVENUES			
Taxes	\$ 69,083	\$ 1,140	\$ 70,223
Licenses, Permits, and Fees	1,590	-	1,590
State Sources	96,355	22,122	118,477
Interest Income	878	-	878
Miscellaneous	3,457	-	3,457
Total Revenues	<u>171,363</u>	<u>23,262</u>	<u>194,625</u>
EXPENDITURES			
Current			
General Government	75,112	-	75,112
Public Safety	-	33,158	33,158
Debt Service			
Special Assessments	6,517	-	6,517
Capital Outlay			
Facilities Acquisition and Construction	-	61,232	61,232
Total Expenditures	<u>81,629</u>	<u>94,390</u>	<u>176,019</u>
Excess (Deficiency) of Revenues over Expenditures	89,734	(71,128)	18,606
OTHER FINANCING SOURCES (USES)			
Operating Transfer In	-	58,129	58,129
Operating Transfer Out	(58,129)	-	(58,129)
Total Other Financing Sources (Uses)	<u>(58,129)</u>	<u>58,129</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	31,605	(12,999)	18,606
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>284,042</u>	<u>(92,024)</u>	<u>192,018</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 315,647</u>	<u>\$ (105,023)</u>	<u>\$ 210,624</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES - MODIFIED CASH BASIS**
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 18,606

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

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

28,165

Changes in Net Position of Governmental Activities

\$ 46,771

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS

PROPRIETARY FUNDS

December 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Garbage</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and Investments	\$ 286,354	\$ 38,403	\$ 324,757
Restricted Cash	<u>235,797</u>	<u>-</u>	<u>235,797</u>
Total Current Assets	522,151	38,403	560,554
Capital Assets			
Non-Depreciable			
Land	7,000	-	7,000
Depreciable, net of accumulated depreciation			
Infrastructure	<u>1,409,052</u>	<u>-</u>	<u>1,409,052</u>
Total Capital Assets	<u>1,416,052</u>	<u>-</u>	<u>1,416,052</u>
Total Assets	1,938,203	38,403	1,976,606
LIABILITIES			
Due to Other Funds	119,176	-	119,176
Current Portion of Long-term Debt:			
Bonds Payable	105,000	-	105,000
Due After One Year:			
Bonds Payable	<u>661,000</u>	<u>-</u>	<u>661,000</u>
Total Liabilities	885,176	-	885,176
NET POSITION			
Net Investment in Capital Assets	650,052	-	650,052
Restricted	235,797	-	235,797
Unrestricted	<u>167,178</u>	<u>38,403</u>	<u>205,581</u>
Total Net Position	<u>\$ 1,053,027</u>	<u>\$ 38,403</u>	<u>\$ 1,091,430</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
Year Ended December 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Garbage</u>	<u>Total</u>
OPERATING REVENUES			
Charges for Services	\$ 127,739	\$ 27,660	\$ 155,399
OPERATING EXPENSES			
Utilities	3,869	-	3,869
Chemical and Testing Fees	7,950	-	7,950
Contracted Services	-	28,560	28,560
Salaries	14,482	-	14,482
Repairs and Maintenance	35,337	-	35,337
Depreciation	82,534	-	82,534
Supplies	778	-	778
Miscellaneous	2,283	-	2,283
Total Operating Expenses	<u>147,233</u>	<u>28,560</u>	<u>175,793</u>
OPERATING LOSS	(19,494)	(900)	(20,394)
NONOPERATING REVENUES (EXPENSES)			
Interest and Fiscal Fees	(16,845)	-	(16,845)
Special Assessments	62,123	-	62,123
Interest Income	548	-	548
Total Nonoperating Revenues (Expenses)	<u>45,826</u>	<u>-</u>	<u>45,826</u>
CHANGE IN NET POSITION	26,332	(900)	25,432
NET POSITION, BEGINNING OF YEAR	<u>1,026,695</u>	<u>39,303</u>	<u>1,065,998</u>
NET POSITION, END OF YEAR	<u>\$ 1,053,027</u>	<u>\$ 38,403</u>	<u>\$ 1,091,430</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Garbage</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 127,739	\$ 27,660	\$ 155,399
Payments to suppliers	(50,217)	(28,560)	(78,777)
Payments to employees	<u>(14,482)</u>	<u>-</u>	<u>(14,482)</u>
Net cash provided (used) by operating activities	63,040	(900)	62,140
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Special assessment receipts	<u>62,123</u>	<u>-</u>	<u>62,123</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest and fiscal fees	(16,845)	-	(16,845)
Principal paid on capital debt	(100,000)	-	(100,000)
Loans from other funds	<u>12,605</u>	<u>-</u>	<u>12,605</u>
Net cash provided (used) by capital and related financing activities	(104,240)	-	(104,240)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on Investments	<u>548</u>	<u>-</u>	<u>548</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,471	(900)	20,571
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>500,680</u>	<u>39,303</u>	<u>539,983</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 522,151</u>	<u>\$ 38,403</u>	<u>\$ 560,554</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Loss	\$ (19,494)	\$ (900)	\$ (20,394)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	<u>82,534</u>	<u>-</u>	<u>82,534</u>
Net cash provided (used) by operating activities	<u>\$ 63,040</u>	<u>\$ (900)</u>	<u>\$ 62,140</u>

See Notes to Financial Statements

CITY OF FAIRMOUNT
Fairmount, North Dakota

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

The City reports the following major governmental funds:

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

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

CITY OF FAIRMOUNT

Notes to Financial Statements - Continued

The City reports the following major enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

D. Cash and Investments

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

E. Capital Assets

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

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

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

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

F. Long-term Obligations

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

G. Fund Balances and Net Position

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

Fund Balance Spending Policy:

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

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

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

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the School Board. Formal action is required to be taken to establish, modify, or rescind a fund balance commitment.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction claims and judgements, retirements of loans and notes payable, capital expenditures, and self-insurance.

CITY OF FAIRMOUNT

Notes to Financial Statements - Continued

<u>CLASSIFICATION</u>	<u>DEFINITION</u>	<u>EXAMPLES</u>
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

The City had only unassigned fund balances reported at December 31, 2016.

Net Position

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

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

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

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

H. Interfund Transactions

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

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

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

At year end December 31, 2016, the City's carrying amount of deposits was \$652,002 and the bank balances were \$655,497. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining bank balance of \$405,497 was collateralized with securities held by pledging financial institution's agent in the government's name.

Credit Risk:

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

- 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, 2016, the City held no certificates of deposit.

Interest Rate Risk:

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

Concentration of Credit Risk:

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

NOTE 3 - RESTRICTED CASH

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

NOTE 4 - PROPERTY TAXES

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

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

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

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

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

NOTE 5 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2016</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Capital Assets, being depreciated:				
Buildings and Improvements	930,537	43,932	-	974,469
Equipment	<u>85,194</u>	<u>17,300</u>	-	<u>102,494</u>
Total Capital Assets, being depreciated	1,015,731	61,232	-	1,076,963
Less Accumulated Depreciation for:				
Buildings and Improvements	782,455	30,102	-	812,557
Equipment	<u>53,385</u>	<u>2,965</u>	-	<u>56,350</u>
Total Accumulated Depreciation	<u>835,840</u>	<u>33,067</u>	-	<u>868,907</u>
Total Capital Assets Being Depreciated, Net	<u>179,891</u>	<u>28,165</u>	-	<u>208,056</u>
Governmental Activities Capital Assets, Net	<u>\$ 204,891</u>	<u>\$ 28,165</u>	<u>\$ -</u>	<u>\$ 233,056</u>

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

Governmental Activities:	
Public Safety	\$ 32,889
General Government	<u>178</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 33,067</u>

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2016</u>
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Capital Assets, being depreciated:				
Infrastructure	<u>2,570,820</u>	-	-	<u>2,570,820</u>
Less Accumulated Depreciation for:				
Infrastructure	<u>1,079,234</u>	<u>82,534</u>	-	<u>1,161,768</u>
Total Capital Assets Being Depreciated, Net	<u>1,491,586</u>	<u>(82,534)</u>	-	<u>1,409,052</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,498,586</u>	<u>\$ (82,534)</u>	<u>\$ -</u>	<u>\$ 1,416,052</u>

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

Business-type Activities:	
Water and Sewer	\$ 82,534

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

NOTE 6 - DUE TO/FROM OTHER FUNDS

The composition of due to and due from other funds as of December 31, 2016 are as follows:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General	\$ 224,199	\$ -
Street	-	105,023
Water and Sewer	-	119,176
Total	<u>\$ 224,199</u>	<u>\$ 224,199</u>

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

NOTE 7 - INDIVIDUAL FUND DEFICIT

The street fund was in a deficit position at December 31, 2016 due to prior years and current years operating losses.

<u>Governmental Funds</u>	
Street	\$ (105,023)

NOTE 8 - LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities of the City:

<u>Business-type Activities</u>	<u>Long-term Debt Payable at January 1, 2016</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Long-term Debt Payable at December 31, 2016</u>	<u>Due Within One Year</u>
Bonds Payable	\$ 866,000	\$ -	\$(100,000)	\$ 766,000	\$ 105,000

Outstanding debt at December 31, 2016, are comprised of the following individual issues:

- A. \$950,000 Refunding Improvement Bonds, Series 2013 - From an original issuance of \$950,000 at rates ranging from .50% to 3.00%, \$655,000 remains outstanding. The principal and interest are payable through May 1, 2027.
- B. Water Revenue, Bond, Series 2014 - From an original issuance of \$121,759 at a rate of 2%, \$111,000 remains outstanding. The principal and interest are payable through September 1, 2034.

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

The debt service requirements are as follows:

\$950,000 Refunding Improvement Bonds of 2013

(Dated June 15, 2013, due serially to May 1, 2027)
(Interest paid semiannually on May 1st and November 1st)

<u>Fiscal Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
5/1/2017	1.25%	\$ 100,000	\$ 6,219	\$ 106,219
11/1/2017		-	5,594	5,594
5/1/2018	1.25%	95,000	5,594	100,594
11/1/2018		-	5,000	5,000
5/1/2019	1.75%	90,000	5,000	95,000
11/1/2019		-	4,213	4,213
5/1/2020	1.75%	100,000	4,212	104,212
11/1/2020		-	3,337	3,337
5/1/2021	2.25%	95,000	3,337	98,337
11/1/2021		-	2,269	2,269
5/1/2022 -	2.25 - 3.00%			
11/1/2026		155,000	9,469	164,469
5/1/2027	3.00%	20,000	300	20,300
		<u>\$ 655,000</u>	<u>\$ 54,544</u>	<u>\$ 709,544</u>

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

Water Revenue Bond, Series 2014

(Dated August 25, 2014, due serially to September 1, 2034)
(Interest paid semiannually on March 1st and September 1st)

<u>Fiscal Year</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
3/1/2017	2.00%	\$ -	\$ 1,110	\$ 1,110
9/1/2017		5,000	1,110	6,110
3/1/2018	2.00%	-	1,060	1,060
9/1/2018		5,000	1,060	6,060
3/1/2019	2.00%	-	1,010	1,010
9/1/2019		5,000	1,010	6,010
3/1/2020	2.00%	-	960	960
9/1/2020		5,000	960	5,960
3/1/2021	2.00%	-	910	910
9/1/2021		6,000	910	6,910
3/1/2022 -	2.00%			
9/1/2026		30,000	7,300	37,300
3/1/2027 -	2.00%			
9/1/2032		34,000	4,180	38,180
3/1/2032 -	2.00%			
9/1/2034		21,000	840	21,840
		<u>\$ 111,000</u>	<u>\$ 22,420</u>	<u>\$ 133,420</u>

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

CITY OF FAIRMOUNT
Notes to Financial Statements - Continued

NOTE 9 - RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Fairmount pays an annual premium to NDIRF for its general liability, auto, and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile coverage and to \$98,365 for public assets (mobile equipment and portable property) coverage.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$2,000,000 per occurrence during a twelve-month period. The State Bonding Fund currently provides political subdivision with blanket fidelity bond coverage in the amount of \$287,000 for the City employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 10 - TRANSFERS

The following is a summary of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ -	\$ 58,129
Street	<u>58,129</u>	<u>-</u>
Total	<u>\$ 58,129</u>	<u>\$ 58,129</u>

Transfer to the street fund from the general fund was for curbs, gutters, sidewalks, and street repairs.

NOTE 11 - LEGAL COMPLIANCE - BUDGETS

The City's expenditures exceeded appropriations in the Street Fund by \$49,890. The variance was a result of a curbs, gutters, sidewalks and street repairs which was covered by a transfer from the General Fund.

NOTE 12 - SUBSEQUENT EVENTS

The City has evaluated subsequent events through August 31, 2017, the date on which the financial statements were available to be issued.

CITY OF FAIRMOUNT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS - GENERAL FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 65,770	\$ 65,770	\$ 69,083	\$ 3,313
Licenses, Permits, and Fees	1,850	1,850	1,590	(260)
State Sources	61,500	61,500	96,355	34,855
Interest Income	500	500	878	378
Miscellaneous	2,000	2,000	3,457	1,457
Total Revenues	131,620	131,620	171,363	39,743
EXPENDITURES				
Current				
General Government	88,750	88,750	75,112	13,638
Debt Services				
Special Assessments	-	-	6,517	(6,517)
Total Expenditures	88,750	88,750	81,629	7,121
Excess of Revenues over Expenditures	42,870	42,870	89,734	46,864
OTHER FINANCING SOURCES (USES)				
Operating Transfer Out	-	-	(58,129)	(58,129)
NET CHANGE IN FUND BALANCE	<u>\$ 42,870</u>	<u>\$ 42,870</u>	31,605	<u>\$ (11,265)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>284,042</u>	
FUND BALANCE, END OF YEAR			<u>\$ 315,647</u>	

CITY OF FAIRMOUNT
Fairmount, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS - STREET FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 5,000	\$ 5,000	\$ 1,140	\$ (3,860)
State Sources	-	-	22,122	22,122
Total Revenues	5,000	5,000	23,262	18,262
EXPENDITURES				
Current				
Public Safety	44,500	44,500	33,158	11,342
Capital Outlay				
Facilities Acquisition and Construction	-	-	61,232	(61,232)
Total Expenditures	44,500	44,500	94,390	(49,890)
Deficiency of Revenues over Expenditures	(39,500)	(39,500)	(71,128)	(31,628)
OTHER FINANCING SOURCES (USES)				
Operating Transfer In	-	-	58,129	58,129
NET CHANGE IN FUND BALANCE	<u>\$ (39,500)</u>	<u>\$ (39,500)</u>	(12,999)	<u>\$ 26,501</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR			(92,024)	
FUND BALANCE (DEFICIT), END OF YEAR			<u>\$ (105,023)</u>	

CITY OF FAIRMOUNT
Fairmount, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

NOTE 1 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

NOTE 2 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended December 31, 2016, the City had the following fund expenditures in excess of budgeted amounts:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Street Fund	\$ 44,500	\$ 94,390	\$ (49,890)

The excess was a result of a curbs, gutters, sidewalks and street repairs which was covered by a transfer from the General Fund.



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

City Council
City of Fairmount
Fairmount, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to finance audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund, of the City of Fairmount, Fairmount, North Dakota as of and the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Fairmount's basic financial statements, and have issued our report thereon dated August 31, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses (2016-01 and 2016-02).

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Nadine Julson, LLC

Nadine Julson, LLC
Wahpeton, North Dakota
August 31, 2017

CITY OF FAIRMOUNT
Fairmount, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Report Issued: Unmodified

Internal Control Over Financial Reporting

Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified not considered to be material weaknesses?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-01 LACK OF SEGREGATION OF DUTIES

Criteria

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

Condition

As part of obtaining reasonable assurance about whether City of Fairmount’s financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the City’s financial condition whether due to error or fraud.

Recommendation

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

Views of Responsible Officials

There is no disagreement with the audit finding.

CITY OF FAIRMOUNT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

2016-02 PREPARATION OF FINANCIAL STATEMENTS

Criteria

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

Condition

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

Effect

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

Recommendation

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

Views of Responsible Officials

There is no disagreement with the audit finding.

CITY OF FAIRMOUNT
Fairmount, North Dakota

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

Prior Financial Statement Findings:

2015-01

A material weakness was reported for a lack of segregation of duties.

Corrective Action Plan

The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements. This significant deficiency continues to exist under the current audit findings as finding number 2016-01.