

AUDIT REPORT

CITY OF GARRISON
Garrison, North Dakota

For the Year Ended December 31, 2017

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF GARRISON
Garrison, North Dakota

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CITY OF GARRISON
Garrison, North Dakota

CITY OFFICIALS

Shannon Jeffers	Mayor
Glen Nygard	President
David Reinarts	Vice President
John Matthews	Council Member
Marcus Matthews	Council Member
Roy McKenzie	Council Member
Paul Schlichting	Council Member
Diane Affeldt	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Garrison
Garrison, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Garrison, Garrison, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 judgement, 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 city'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 city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Garrison, Garrison, North Dakota, as of December 31, 2017, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

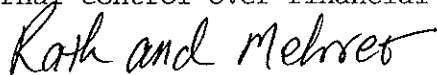
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information and the schedule of fund activity arising from cash transactions 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 2, 2018 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 2, 2018

CITY OF GARRISON

Management's Discussion and Analysis

December 31, 2017

The Management's Discussion and Analysis (MD&A) of the City of Garrison's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2017. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2017 are as follows:

- * Total net position of the city decreased \$766,672 as a result of the current year's operations. Net position of the governmental activities decreased \$897,698 and net position of the business-type activities increased \$131,026.
- * Governmental net position totaled \$6,472,148 and business-type net position totaled \$4,039,116.
- * Total revenues from all sources were \$1,376,083 for governmental activities and \$846,958 for business-type activities.
- * Total expenses were \$1,866,161 for governmental activities and \$1,123,553 for business-type activities.
- * The city's general fund had \$570,780 in total revenues and \$697,168 in total expenditures. Overall, the general fund balance decreased by \$126,387 for the year ended December 31, 2017.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

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

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2017?"

The Statement of Net Position presents information on all 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 fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, urban and economic development, culture and recreation, and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer, garbage and landfill.

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, street fund and city sales tax fund are considered "major governmental funds". The city's water fund and sewer fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" or "Other Enterprise Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2017. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position decreased by \$766,672 for the year ended December 31, 2017. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2017, the city's net position of \$10,511,264 is segregated into three separate categories. Net investment in capital assets represents 65% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 14% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 21% of the city's net position and is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	2,095,539	1,659,313
Capital Assets (net of accumulated depreciation)	4,978,374	4,044,803
Total Assets	<u>7,073,913</u>	<u>5,704,116</u>
<u>Liabilities</u>		
Current Liabilities	45,000	75,000
Long-Term Liabilities	556,765	1,590,000
Total Liabilities	<u>601,765</u>	<u>1,665,000</u>
<u>Net Position</u>		
Net Investment in Capital Assets	4,388,374	2,379,803
Restricted	1,444,815	15,999
Unrestricted	638,959	1,643,315
Total Net Position	<u>6,472,148</u> =====	<u>4,039,116</u> =====

Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Assets		
Current Assets	2,588,966	1,491,569
Capital Assets (net of accumulated depreciation)	5,425,853	4,157,544
Total Assets	<u>8,014,819</u>	<u>5,649,113</u>
Liabilities		
Current Liabilities	45,000	76,023
Long-Term Liabilities	599,973	1,665,000
Total Liabilities	<u>644,973</u>	<u>1,741,023</u>
Net Position		
Net Investment in Capital		
Assets		
Restricted	4,790,853	2,416,521
Unrestricted	1,844,057	15,553
	734,936	1,476,016
Total Net Position	<u>7,369,846</u> =====	<u>3,908,090</u> =====

Table II shows the changes in net position for the fiscal year ended December 31, 2017. A comparative analysis of city-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	141,013	834,525
Operating Grants and Contributions	273,885	
<u>General Revenues:</u>		
Property Taxes	239,424	
Other Taxes	587,458	
Intergovernmental - Unrestricted	104,182	
Interest Earnings and Other Revenue	30,121	12,433
Total Revenues	<u>1,376,083</u>	<u>846,958</u>
Expenses		
General Government	287,005	
Public Safety	166,832	
Streets and Public Works	744,266	
Urban and Economic Development	161,672	
Culture and Recreation	148,149	
Other	341,815	
Interest on Long-Term Debt	16,422	
Water		599,895
Sewer		245,164
Garbage		82,063
Trailer Park		120,280
Landfill		74,651
Water Meters		1,500
Total Expenses	<u>1,866,161</u>	<u>1,123,553</u>
Net Change in Position Before Transfers	(490,078)	(276,594)
Transfers	<u>(407,620)</u>	<u>407,620</u>
Net Change in Position	<u>(897,698)</u> =====	<u>131,026</u> =====

Property taxes constituted 11%, other taxes 27%, unrestricted intergovernmental 5%, grants and contributions 13%, and charges for services made up 44% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 10%, public safety 6%, streets and public works 25% and enterprise 38% of total expenses for all activities during the fiscal year ended December 31, 2017.

Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	129,412	939,655
Operating Grants and Contributions	2,566,585	
<u>General Revenues:</u>		
Property Taxes	217,843	
Other Taxes	575,415	
Intergovernmental - Unrestricted	117,243	
Interest Earnings and Other Revenue	12,115	11,257
Total Revenues	3,618,614	950,912
Expenses		
General Government	260,036	
Public Safety	163,203	
Streets and Public Works	815,716	
Urban and Economic Development	79,150	
Culture and Recreation	132,372	
Other	374,748	
Interest on Long-Term Debt	17,240	
Water		457,462
Sewer		220,498
Garbage		81,109
Trailer Park		79,436
Landfill		21,302
Water Meters		2,500
Total Expenses	1,842,464	862,307
Net Change in Position Before Transfers	1,776,150	88,605
Transfers	(73,074)	73,074
Net Change in Position	1,703,076	161,679

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III
Total and Net Cost of Services
As of December 31, 2017

	Total Cost Year Ended <u>Dec. 31, 2017</u>	Net Cost Year Ended <u>Dec. 31, 2017</u>
General Government	287,005	260,286
Public Safety	166,832	163,380
Streets and Public Works	744,266	546,288
Urban and Economic Development	161,672	161,672
Culture and Recreation	148,149	145,117
Other	341,815	217,330
Interest on Long-Term Debt	16,422	(42,810)
Total Expenses	<u>1,866,161</u> =====	<u>1,451,262</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$1,376,083 and expenditures of \$1,461,889 for the year ended December 31, 2017. As of December 31, 2017, the unassigned fund balance of the city's general fund was \$521,390 and total unassigned fund balance for all the city's governmental funds was \$518,321.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2017, the city amended the general fund budget. The gross effect of the amendments was to increase estimated revenues by \$22,117, increase appropriations by \$2,167 and decrease transfers out by \$10,000.

Actual revenue for the year ended December 31, 2017 was \$799 less than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$128.

CAPITAL ASSETS

As of December 31, 2017, the city had \$9,023,177 invested in capital assets. The following table shows the balances, for governmental and business-type activities, as of December 31, 2017.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2017

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	4,815,065	3,941,159
Machinery and Vehicles	163,309	103,644
Total (net of depreciation)	<u>4,978,374</u> =====	<u>4,044,803</u> =====

This total represents a decrease of \$560,220 in capital assets from January 1, 2017. The change in construction in progress was due to the completion of a airport runway project. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Construction in Progress	2,606,760	
Buildings and Infrastructure	2,629,393	4,042,167
Machinery and Vehicles	189,700	115,377
Total (net of depreciation)	<u>5,425,853</u> =====	<u>4,157,544</u> =====

DEBT ADMINISTRATION

As of December 31, 2017, the city had \$2,266,765 in outstanding debt of which \$120,000 was due within one year. During fiscal year 2017, the city did not issue any new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Diane Affeldt, City Auditor, Garrison, ND.

CITY OF GARRISON
Garrison, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	2,095,539.02	1,659,313.04	3,754,852.06
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	4,815,065.00	3,941,159.00	8,756,224.00
Machinery and Vehicles	163,309.00	103,644.00	266,953.00
Total Capital Assets	4,978,374.00	4,044,803.00	9,023,177.00
Total Assets	7,073,913.02	5,704,116.04	12,778,029.06
LIABILITIES:			
Long-Term Liabilities:			
Due Within One Year:			
Special Assessment Bonds Payable	45,000.00		45,000.00
Revenue Bonds Payable		75,000.00	75,000.00
Due After One Year:			
Special Assessment Bonds Payable	545,000.00		545,000.00
Revenue Bonds Payable		1,590,000.00	1,590,000.00
Compensated Absences Payable	11,765.20		11,765.20
Total Liabilities	601,765.20	1,665,000.00	2,266,765.20
NET POSITION:			
Net Investment in Capital Assets	4,388,374.00	2,379,803.00	6,768,177.00
Restricted for:			
Debt Service	12,650.62		12,650.62
Special Purposes	1,432,164.21		1,432,164.21
Meter Deposits		15,998.50	15,998.50
Unrestricted	638,958.99	1,643,314.54	2,282,273.53
Total Net Position	6,472,147.82	4,039,116.04	10,511,263.86

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2017

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
Primary Government:					
<u>Governmental Activities:</u>					
General Government	287,005.21	26,462.86	256.00	(260,286.35)	(260,286.35)
Public Safety	166,832.14	3,452.00		(163,380.14)	(163,380.14)
Streets and Public Works	744,266.26	69,626.43	128,352.14	(546,287.69)	(546,287.69)
Urban and Economic Development	161,671.51			(161,671.51)	(161,671.51)
Culture and Recreation	148,148.54	1,578.87	1,453.00	(145,116.67)	(145,116.67)
Other	341,815.43	39,893.24	84,592.10	(217,330.09)	(217,330.09)
Interest on Long-Term Debt	16,421.75		59,232.17	42,810.42	42,810.42
Total Governmental Activities	1,866,160.84	141,013.40	273,885.41	(1,451,262.03)	(1,451,262.03)
<u>Business-Type Activities:</u>					
Water	599,894.71	586,823.59		(13,071.12)	(13,071.12)
Sewer	245,163.98	76,624.55		(168,539.43)	(168,539.43)
Garbage	82,063.00	77,313.50		(4,749.50)	(4,749.50)
Trailer Park	120,279.93	68,160.52		(52,119.41)	(52,119.41)
Landfill	74,650.97	23,702.70		(50,948.27)	(50,948.27)
Water Meters	1,500.00	1,900.00		400.00	400.00
Total Business-Type Activities	1,123,552.59	834,524.86		(289,027.73)	(289,027.73)
Total Primary Government	2,989,713.43	975,538.26	273,885.41	(1,451,262.03)	(289,027.73)
=====					
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes			199,713.89		199,713.89
Property taxes; levied for special purposes			39,709.91		39,709.91
Sales taxes			329,888.05		329,888.05
City lodging taxes			5,079.92		5,079.92
Cigarette taxes			4,180.26		4,180.26
Oil and gas production taxes			57,536.84		57,536.84
Coal severance taxes			145,671.14		145,671.14
Coal conversion taxes			45,101.90		45,101.90
Intergovernmental revenue not restricted to specific programs			104,181.82		104,181.82
Earnings on investments and other revenue			30,120.52	12,433.32	42,553.84
Transfers			(407,620.30)	407,620.30	
Total General Revenues and Transfers			553,563.95	420,053.62	973,617.57
Change in Net Position			(897,698.08)	131,025.89	(766,672.19)
Net Position - January 1			7,369,845.90	3,908,090.15	11,277,936.05
Net Position - December 31			6,472,147.82	4,039,116.04	10,511,263.86
=====					

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2017

	Major Funds				
	General	Street	City Sales Tax	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash, Cash Equivalents and Investments	518,321.31	85,180.18	1,112,426.46	379,611.07	2,095,539.02
Interfund Receivable	3,068.86				3,068.86
<hr/>					
Total Assets	521,390.17	85,180.18	1,112,426.46	379,611.07	2,098,607.88
<hr style="border-top: 1px dashed black;"/>					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund Payable				3,068.86	3,068.86
<hr/>					
Fund Balances					
Restricted for:					
Streets and Public Works		85,180.18	663,617.11		748,797.29
Community Development			194,597.31		194,597.31
Urban and Economic Development			254,212.04	2,412.06	256,624.10
Culture and Recreation				3,327.66	3,327.66
Emergency				8,128.87	8,128.87
Airport				163,344.05	163,344.05
Cemetery				57,344.93	57,344.93
Debt Service				12,650.62	12,650.62
Assigned to:					
Equipment				132,402.88	132,402.88
Unassigned	521,390.17			(3,068.86)	518,321.31
<hr/>					
Total Fund Balances	521,390.17	85,180.18	1,112,426.46	376,542.21	2,095,539.02
<hr/>					
Total Liabilities and Fund Balances	521,390.17	85,180.18	1,112,426.46	379,611.07	2,098,607.88
<hr style="border-top: 1px dashed black;"/>					

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2017

Total Fund Balances for Governmental Funds	2,095,539.02
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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	10,191,502.00	
Less Accumulated Depreciation	(5,213,128.00)	
Net Capital Assets		4,978,374.00

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2017 are:

Special Assessment Bonds Payable	(590,000.00)	
Compensated Absences Payable	(11,765.20)	
Total Long-Term Liabilities		(601,765.20)

Total Net Position of Governmental Activities	6,472,147.82
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The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

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

	Major Funds				Total Governmental Funds
	General	Street	City Sales Tax	Other Governmental Funds	
Revenues:					
Taxes	200,233.03		329,888.05	44,270.69	574,391.77
Special Assessments				59,232.17	59,232.17
Licenses, Permits and Fees	17,876.49				17,876.49
Intergovernmental	336,927.96	128,352.14		106,045.10	571,325.20
Charges for Services	8,586.37	67,861.43		3,730.84	80,178.64
Fines and Forfeits	3,452.00			613.03	4,065.03
Miscellaneous	3,704.54	8,120.00	2,254.50	54,934.72	69,013.76
Total Revenues	570,780.39	204,333.57	332,142.55	268,826.55	1,376,083.06
Expenditures:					
Current:					
General Government	277,079.67				277,079.67
Public Safety	158,764.14		7,800.00		166,564.14
Streets and Public Works	237,065.43	301,143.83			538,209.26
Urban and Economic Development	296.51		155,375.00	6,000.00	161,671.51
Culture and Recreation	23,961.80		68,522.75	40,718.99	133,203.54
Other			30.74	53,028.69	53,059.43
Capital Outlay				70,680.00	70,680.00
Debt Service:					
Principal				45,000.00	45,000.00
Interest and Service Charges				16,421.75	16,421.75
Total Expenditures	697,167.55	301,143.83	231,728.49	231,849.43	1,461,889.30
Excess (Deficiency) of Revenues Over Expenditures	(126,387.16)	(96,810.26)	100,414.06	36,977.12	(85,806.24)
Other Financing Sources (Uses):					
Transfers In		16,787.00		162,393.92	179,180.92
Transfers Out			(439,407.30)	(147,393.92)	(586,801.22)
Total Other Financing Sources (Uses)		16,787.00	(439,407.30)	15,000.00	(407,620.30)
Net Change in Fund Balances	(126,387.16)	(80,023.26)	(338,993.24)	51,977.12	(493,426.54)
Fund Balance - January 1	647,777.33	165,203.44	1,451,419.70	324,565.09	2,588,965.56
Fund Balance - December 31	521,390.17	85,180.18	1,112,426.46	376,542.21	2,095,539.02

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

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

Net Change in Fund Balances - Total Governmental Funds (493,426.54)

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. This is the amount by which depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	70,680.00	
Current Year Depreciation Expense	(518,159.00)	(447,479.00)

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the 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. This is the amount by which repayment of debt exceeded debt proceeds.

Debt Proceeds	0.00	
Repayment of Debt	45,000.00	45,000.00

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 Increase in Compensated Absences		(1,792.54)

Change in Net Position of Governmental Activities		(897,698.08)

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2017

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	1,562,368.87		96,944.17	1,659,313.04
Interfund Receivable	50,638.11			50,638.11
Total Current Assets	1,613,006.98		96,944.17	1,709,951.15
Noncurrent Assets:				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	3,844,566.00	43,552.00	53,041.00	3,941,159.00
Machinery and Vehicles	19,414.00	84,230.00		103,644.00
Total Noncurrent Assets	3,863,980.00	127,782.00	53,041.00	4,044,803.00
Total Assets	5,476,986.98	127,782.00	149,985.17	5,754,754.15
LIABILITIES				
Current Liabilities:				
Interfund Payable		50,638.11		50,638.11
Revenue Bonds Payable	75,000.00			75,000.00
Total Current Liabilities	75,000.00	50,638.11		125,638.11
Noncurrent Liabilities:				
Revenue Bonds Payable	1,590,000.00			1,590,000.00
Total Liabilities	1,665,000.00	50,638.11		1,715,638.11
NET POSITION				
Net Investment in Capital Assets	2,198,980.00	127,782.00	53,041.00	2,379,803.00
Restricted for:				
Meter Deposits	15,998.50			15,998.50
Unrestricted	1,597,008.48	(50,638.11)	96,944.17	1,643,314.54
Total Net Position	3,811,986.98	77,143.89	149,985.17	4,039,116.04

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

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

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<u>Operating Revenues:</u>				
<u>Charges for Sales and Services:</u>				
Water User Fees	455,483.94			455,483.94
Rural Water Rates	126,577.65			126,577.65
Sewer Charges		76,574.55		76,574.55
Garbage Collections			77,313.50	77,313.50
Dumpground Charges			20,867.00	20,867.00
Landfill Surcharges			1,488.20	1,488.20
Meter Deposits	1,900.00			1,900.00
Trailer Park Rents			68,160.52	68,160.52
Miscellaneous Service	4,762.00	50.00	1,347.50	6,159.50
Total Operating Revenues	588,723.59	76,624.55	169,176.72	834,524.86
<u>Operating Expenses:</u>				
Water	305,500.41			305,500.41
Sewer		25,318.98		25,318.98
Garbage			82,063.00	82,063.00
Trailer Park			23,256.97	23,256.97
Landfill			24,923.68	24,923.68
Meter Refunds	1,500.00			1,500.00
Repairs and Maintenance	151,935.00	208,192.00	145,356.25	505,483.25
Depreciation	99,694.00	11,653.00	1,394.00	112,741.00
Total Operating Expenses	558,629.41	245,163.98	276,993.90	1,080,787.29
Operating Income (Loss)	30,094.18	(168,539.43)	(107,817.18)	(246,262.43)
<u>Non-Operating Revenues (Expenses):</u>				
Interest Income	5,844.74	374.42		6,219.16
Miscellaneous Revenue	2,594.16	20.00	3,600.00	6,214.16
Interest Payment on Revenue Bonds	(42,765.30)			(42,765.30)
Total Non-Operating Revenues (Expenses)	(34,326.40)	394.42	3,600.00	(30,331.98)
Income (Loss) Before Transfers	(4,232.22)	(168,145.01)	(104,217.18)	(276,594.41)
Transfers In	303,443.30	135,964.00		439,407.30
Transfers Out			(31,787.00)	(31,787.00)
Change in Net Position	299,211.08	(32,181.01)	(136,004.18)	131,025.89
Net Position - January 1	3,512,775.90	109,324.90	285,989.35	3,908,090.15
Net Position - December 31	3,811,986.98	77,143.89	149,985.17	4,039,116.04

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2017

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>				
Receipts from customers	639,009.29	86,063.93	188,154.95	913,228.17
Payments to suppliers and employees	(458,935.41)	(233,510.98)	(275,599.90)	(968,046.29)
Net cash provided (used) by operating activities	180,073.88	(147,447.05)	(87,444.95)	(54,818.12)
<u>Cash flows from noncapital financing activities:</u>				
Miscellaneous receipts	2,594.16	20.00	3,600.00	6,214.16
Transfers in	303,443.30	135,964.00		439,407.30
Transfers out			(31,787.00)	(31,787.00)
Interfund loan transactions	(11,088.63)	11,088.63		
Net cash provided (used) by noncapital and related financing activities	294,948.83	147,072.63	(28,187.00)	413,834.46
<u>Cash flows from capital and related financing activities:</u>				
Principal	(76,023.00)			(76,023.00)
Interest and service charges	(42,765.30)			(42,765.30)
Net cash provided (used) by capital and related financing activities	(118,788.30)			(118,788.30)
<u>Cash flows from investing activities:</u>				
Interest income	5,844.74	374.42		6,219.16
Net increase in cash and cash equivalents	362,079.15		(115,631.95)	246,447.20
Cash and cash equivalents, January 1	1,200,289.72	-0-	212,576.12	1,412,865.84
Cash and cash equivalents, December 31	1,562,368.87	-0-	96,944.17	1,659,313.04
=====				
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	30,094.18	(168,539.43)	(107,817.18)	(246,262.43)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	99,694.00	11,653.00	1,394.00	112,741.00
Net decrease in accounts receivable	50,285.70	9,439.38	18,978.23	78,703.31
Net cash provided (used) by operating activities	180,073.88	(147,447.05)	(87,444.95)	(54,818.12)
=====				

The accompanying notes are an integral part of these financial statements.

CITY OF GARRISON
Garrison, North Dakota

Notes to the Financial Statements
December 31, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Garrison operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the city. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Government 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, there are no component units to be included within the City of Garrison as a reporting entity.

B. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities display information about the primary government, the City of Garrison. 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 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 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 information about the city's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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 investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

Street. This fund accounts for the state highway distribution tax and utility charges used for street repairs and maintenance.

City Sales Tax. This fund accounts for the city's sales tax collections, which are used for community and economic development projects and for community development and infrastructure.

The city reports the following major enterprise funds:

Water. This fund accounts for the activities of the city's water distribution system.

Sewer. This fund accounts for the activities of the city's sewer collection system.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary 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.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund 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 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, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

E. Capital Assets

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

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

Buildings and Infrastructure	10 to 100 years
Machinery and Vehicles	10 to 20 years

F. Compensated Absences

Vested or accumulated vacation leave is reported in the government-wide statement of net position. Compensation for unused vacation leave up to a maximum of 96 hours will be granted to city employees upon termination of employment with the city.

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Fund Equity

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

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

Nonspendable - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

Restricted - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

Committed - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

Assigned - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

Flow Assumptions - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- * Committed
- * Assigned
- * Unassigned

Net Position - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

I. Interfund Transactions

In the governmental and proprietary 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.

J. Use of Estimates

The preparation of financial statements in conformity with the special purpose framework (SPF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments 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 any 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 other securities approved by the banking board.

At December 31, 2017 the city's carrying amount of deposits was \$3,754,852 and the bank balance was \$3,766,396. Of the bank balance, \$276,139 was covered by Federal Depository Insurance. The remaining balance of \$3,490,257 was collateralized with securities held by the 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:

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2017 the city held certificates of deposit in the amount of \$118,533, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 INTERFUND RECEIVABLE/PAYABLE

Interfund receivables/payables are created by negative cash balances in the various funds. The amounts shown as interfund payables represent the amount of negative cash in each fund. Interfund receivables/payables for the year ended December 31, 2017 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	3,068.86	
Library		3,068.86
Water	50,638.11	
Sewer		50,638.11

Note 5 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2017:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Construction in Progress	2,606,760	70,680	2,677,440	
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	6,975,320	2,677,440		9,652,760
Machinery and Vehicles	538,742			538,742
Total	<u>7,514,062</u>	<u>2,677,440</u>		<u>10,191,502</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	4,345,927	491,768		4,837,695
Machinery and Vehicles	349,042	26,391		375,433
Total	<u>4,694,969</u>	<u>518,159</u>		<u>5,213,128</u>
Total capital assets being depreciated, net	<u>2,819,093</u>	<u>2,159,281</u>		<u>4,978,374</u>
Governmental Activities Capital Assets, Net	<u>5,425,853</u>	<u>2,229,961</u>	<u>2,677,440</u>	<u>4,978,374</u>

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>
Business-type Activities:				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	4,842,720			4,842,720
Machinery and Vehicles	205,343			205,343
Total	5,048,063			5,048,063
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	800,553	101,008		901,561
Machinery and Vehicles	89,966	11,733		101,699
Total	890,519	112,741		1,003,260
Business-type Activities				
Capital Assets, Net	4,157,544	(112,741)	-0-	4,044,803
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the city as follows for the year ended December 31, 2017:

Governmental Activities:

General Government	8,133
Public Safety	268
Streets and Public Works	206,057
Culture and Recreation	14,945
Other	288,756
Total	518,159
	=====

Business-type Activities:

Water	99,694
Sewer	11,653
Trailer Park	1,394
Total	112,741
	=====

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2017, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities:

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Special Assessment Bonds	635,000		45,000	590,000	45,000
Compensated Absences *	9,973	1,793		11,765	
Total	<u>644,973</u>	<u>1,793</u>	<u>45,000</u>	<u>601,765</u>	<u>45,000</u>

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

Business-type Activities (Proprietary Funds):

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	1,741,023	-0-	76,023	1,665,000	75,000

Outstanding debt at December 31, 2017 consists of the following:

Governmental Activities:

Special Assessment Debt. The city has issued special assessment bonds to provide funds for a water, sewer and street project. Special assessment bonds outstanding at December 31, 2017 are as follows:

\$680,000 Refunding Improvement Bonds, Series 2015, due in annual installments of \$45,000 to \$55,000 through May 1, 2029; interest is at 1.65% to 3%.	590,000.00 =====
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The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	45,000.00	14,556.25
2019	45,000.00	13,813.75
2020	45,000.00	13,071.25
2021	45,000.00	12,137.50
2022	45,000.00	11,012.50
2023-2027	255,000.00	35,425.00
2028-2029	110,000.00	3,300.00
Total	<u>590,000.00</u>	<u>103,316.25</u>

Business-type Activities:

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2017 are as follows:

\$1,821,023 Water and Sales Tax Revenue Bonds, Series 2015, due in annual installments of \$75,000 to 110,000 through September 1, 2035; interest is at 2%.	1,665,000.00 =====
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The annual requirements to amortize the outstanding revenue bond debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	75,000.00	33,300.00
2019	75,000.00	31,800.00
2020	80,000.00	30,300.00
2021	80,000.00	28,700.00
2022	80,000.00	27,100.00
2023-2027	445,000.00	110,200.00
2028-2032	505,000.00	63,300.00
2033-2035	325,000.00	12,900.00
Total	<u>1,665,000.00</u> =====	<u>337,600.00</u> =====

Note 7 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Water	184,655.00	
Sewer	135,964.00	
City Sales Tax		320,619.00

To subsidize water and sewer repairs from the one cent share of city sales taxes designated for community development and infrastructure.

Water	118,788.30	
City Sales Tax		118,788.30

To pay debt service for Water and Sales Tax Revenue Bonds, Series 2015 from one cent share of city sales taxes designated for community development and infrastructure.

Street	16,787.00	
Library	5,000.00	
Fire Dept. Equipment Capital	10,000.00	
Garbage		9,000.00
Landfill		7,363.00
Trailer Park		15,424.00

To subsidize expenditures/set-aside funds for equipment reserves.

Airport	147,393.92	
Airport Reserve		147,393.92

To close Airport Reserve Fund.

Note 8 DEFICIT FUND BALANCES

As of December 31, 2017, the following funds had a deficit balance:

<u>Special Revenue Fund</u>	
Library	(3,068.86)
<u>Enterprise Fund</u>	
Sewer Operating	(153,783.54)

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

Note 9 RISK MANAGEMENT

The City of Garrison 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 (NDRIF), 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 NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$1,009,921 for public assets.

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 a blanket fidelity bond coverage in the amount of \$905,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 10 PENSION PLAN

The city provides benefits for all of its full-time employees, through a defined contribution plan with Investment Centers of America. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 8% of the employee's gross salary for the year. During the year ending December 31, 2017, the city contributed \$16,055.

CITY OF GARRISON
Garrison, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	205,822.00	200,233.03	200,233.03	
Licenses, Permits and Fees	16,950.00	17,876.49	17,876.49	
Intergovernmental	310,800.00	336,927.96	336,927.96	
Charges for Services	10,300.00	8,586.37	8,586.37	
Fines and Forfeits	4,000.00	3,452.00	3,452.00	
Miscellaneous	1,590.00	4,503.46	3,704.54	(798.92)
Total Revenues	549,462.00	571,579.31	570,780.39	(798.92)
Expenditures:				
Current:				
General Government	293,713.00	277,207.51	277,079.67	127.84
Public Safety	166,749.25	158,764.14	158,764.14	
Streets and Public Works	206,000.00	237,065.43	237,065.43	
Urban and Economic Development		296.51	296.51	
Culture and Recreation	33,000.00	23,961.80	23,961.80	
Total Expenditures	699,462.25	697,295.39	697,167.55	127.84
Excess (Deficiency) of Revenues Over Expenditures	(150,000.25)	(125,716.08)	(126,387.16)	(671.08)
Other Financing (Uses):				
Transfers Out	(10,000.00)			
Net Change in Fund Balances	(160,000.25)	(125,716.08)	(126,387.16)	(671.08)
Fund Balance - January 1	647,777.33	647,777.33	647,777.33	
Fund Balance - December 31	487,777.08	522,061.25	521,390.17	(671.08)

CITY OF GARRISON
Garrison, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Street Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	138,000.00	138,000.00	128,352.14	(9,647.86)
Charges for Services	69,500.00	73,660.84	67,861.43	(5,799.41)
Miscellaneous	200.00	1,942.14	8,120.00	6,177.86
Total Revenues	207,700.00	213,602.98	204,333.57	(9,269.41)
<u>Expenditures:</u>				
Current:				
Streets and Public Works	237,450.00	301,713.33	301,143.83	569.50
Excess (Deficiency) of Revenues Over Expenditures	(29,750.00)	(88,110.35)	(96,810.26)	(8,699.91)
<u>Other Financing Sources:</u>				
Transfers In	5,000.00	16,787.00	16,787.00	
Net Change in Fund Balances	(24,750.00)	(71,323.35)	(80,023.26)	(8,699.91)
Fund Balance - January 1	165,203.44	165,203.44	165,203.44	
Fund Balance - December 31	140,453.44	93,880.09	85,180.18	(8,699.91)

CITY OF GARRISON
Garrison, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Sales Tax Fund
For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	290,000.00	329,888.05	329,888.05	
Miscellaneous	1,604.00	2,254.50	2,254.50	
Total Revenues	291,604.00	332,142.55	332,142.55	
<u>Expenditures:</u>				
Current:				
Public Safety		7,800.00	7,800.00	
Urban and Economic Development	150,000.00	155,375.00	155,375.00	
Culture and Recreation		68,522.75	68,522.75	
Other		30.74	30.74	
Total Expenditures	150,000.00	231,728.49	231,728.49	
Excess (Deficiency) of Revenues Over Expenditures	141,604.00	100,414.06	100,414.06	
<u>Other Financing (Uses):</u>				
Transfers Out	(131,250.00)	(439,407.30)	(439,407.30)	
Net Change in Fund Balances	10,354.00	(338,993.24)	(338,993.24)	
Fund Balance - January 1	1,451,419.70	1,451,419.70	1,451,419.70	
Fund Balance - December 31	1,461,773.70	1,112,426.46	1,112,426.46	

CITY OF GARRISON
Garrison, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2017

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general, special revenue and debt service funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

Budget Amendments

The governing board approved the following amendments to the city's budget for the year ending December 31, 2017:

	Original Budget	Amendment	Amended Budget
	<u>Estimated Revenues</u>		
General Fund	549,462	22,117	571,579
<u>Special Revenue Funds</u>			
Street	207,700	5,903	213,603
City Sales Tax	291,604	40,539	332,143
Library	37,355	(4,269)	33,086
Cemetery	10,975	3,303	14,278
Airport	83,525	46,587	130,112
Recreation	10,500	1,463	11,963
City Lodging Tax	5,002	82	5,084
Fire Dept. Eq. Capital		49	49
<u>Debt Service Fund</u>			
Water, Sewer & Street District 2013	55,000	4,232	59,232

		<u>Appropriations</u>	
General Fund	699,462	2,167	697,295
<u>Special Revenue Funds</u>			
Street	237,450	64,263	301,713
City Sales Tax	150,000	81,728	231,728
Library	37,355	(4,275)	33,080
Cemetery	10,975	(10,190)	785
Airport	83,525	39,399	122,924
Recreation	10,500	(735)	9,765
City Lodging Tax	5,000	1,000	6,000
<u>Debt Service Fund</u>			
Water, Sewer & Street District 2013	53,000	8,422	61,422
<u>Transfers In</u>			
<u>Special Revenue Funds</u>			
Street	5,000	11,787	16,787
Fire Dept. Equip. Capital		10,000	10,000
<u>Transfers Out</u>			
General Fund	10,000	(10,000)	
<u>Special Revenue Fund</u>			
City Sales Tax	131,250	308,157	439,407

CITY OF GARRISON
Garrison, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2017

	Balance 1-1-17	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-17
Major Governmental Funds						
General Fund	647,777.33	570,780.39			697,167.55	521,390.17
Street	165,203.44	204,333.57	16,787.00		301,143.83	85,180.18
City Sales Tax	1,451,419.70	332,142.55		439,407.30	231,728.49	1,112,426.46
Total Major Governmental Funds	2,264,400.47	1,107,256.51	16,787.00	439,407.30	1,230,039.87	1,718,996.81
Non-Major Governmental Funds						
Emergency	8,128.87					8,128.87
Library	(5,127.14)	28,012.27	5,000.00		30,953.99	(3,068.86)
Cemetery	28,894.83	14,233.31			784.80	42,343.34
Cemetery Perpetual Maint.	3,755.14	11.28				3,766.42
Cemetery Special	11,201.52	33.65				11,235.17
Airport:						
Operating	8,776.72	130,097.30	147,393.92		122,923.89	163,344.05
Reserve	147,378.95	14.97		147,393.92		
Recreation	1,129.38	11,963.28			9,765.00	3,327.66
City Lodging Tax	3,328.39	5,083.67			6,000.00	2,412.06
Equipment Capital Improvements	57,516.74	20,000.00				77,516.74
Fire Dept. Equipment Capital	44,741.49	144.65	10,000.00			54,886.14
Water, Sewer & Street Impr. Dist. 2013	14,840.20	59,232.17			61,421.75	12,650.62
Total Non-Major Governmental Funds	324,565.09	268,826.55	162,393.92	147,393.92	231,849.43	376,542.21
Total Governmental Funds	2,588,965.56	1,376,083.06	179,180.92	586,801.22	1,461,889.30	2,095,539.02
Major Enterprise Funds						
Water:						
Operating	734,313.74	475,504.65	303,443.30		576,223.71	937,037.98
Water Meter Deposits	15,553.10	1,945.40			1,500.00	15,998.50
Water Main Replacement	12,776.64	18,768.02				31,544.66
Water Capital Improvements	527,481.42	100,944.42				628,425.84
Sewer:						
Operating	(105,339.33)	49,102.77	135,964.00		233,510.98	(153,783.54)
Sewer Lagoon	75,229.23	27,916.20				103,145.43
Total Major Enterprise Funds	1,260,014.80	674,181.46	439,407.30		811,234.69	1,562,368.87
Non-Major Enterprise Funds						
Garbage	20,198.95	77,313.50		9,000.00	82,063.00	6,449.45
Landfill	109,775.99	27,302.70		7,363.00	120,279.93	9,435.76
Trailer Park	101,579.41	68,160.52		15,424.00	73,256.97	81,058.96
Total Non-Major Enterprise Funds	231,554.35	172,776.72		31,787.00	275,599.90	96,944.17
Total Enterprise Funds	1,491,569.15	846,958.18	439,407.30	31,787.00	1,086,834.59	1,659,313.04
Total All Funds	4,080,534.71	2,223,041.24	618,588.22	618,588.22	2,548,723.89	3,754,852.06

Rath & Mehrer, P.C.

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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

Governing Board
City of Garrison
Garrison, 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, each major fund and the aggregate remaining fund information of the City of Garrison, Garrison, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated March 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the city'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'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 city's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

The city's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Responses*. The city'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 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.



Rath and Mehrer, P.C.

Bismarck, North Dakota

March 2, 2018

CITY OF GARRISON
Garrison, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2017

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

* Significant deficiency(ies) identified? X Yes None Reported

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

Condition: The city has one person responsible for most accounting functions.

Criteria: There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over assets of the city.

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

Recommendation: Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2017 are prepared by the city's external auditors.

Criteria: A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

Recommendation: We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

Client Response: It is not cost effective for the city to prepare its own financial statements.