

AUDIT REPORT

CITY OF GLADSTONE
Gladstone, North Dakota

For the Years Ended December 31, 2017 and 2016

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF GLADSTONE
Gladstone, North Dakota

TABLE OF CONTENTS
For the Years Ended December 31, 2017 and 2016

	<u>Page(s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
 BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	13,14
Statement of Activities - Modified Cash Basis	15,16
Balance Sheet - Modified Cash Basis - Governmental Funds	17,18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	19,20
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	21,22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	23,24
Statement of Net Position - Modified Cash Basis - Proprietary Funds	25,26
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	27,28
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	29,30
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis - Agency Fund	31,32
Notes to the Financial Statements	33-42
 SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Modified Cash Basis General Fund	43,44
Notes to the Budgetary Comparison Schedule	45
Schedule of Fund Activity Arising from Cash Transactions	46,47
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	48-49
Schedule of Findings and Responses	50-51
Management Letter	52

CITY OF GLADSTONE
Gladstone, North Dakota

CITY OFFICIALS

Chase Fred	Mayor
Darcy Fossum	Council Member
Darrell Sadowsky	Council Member
Cody Silbernagel	Council Member
Jordan Ridl	Auditor

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-258-4560
Fax 701-258-4983

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Gladstone
Gladstone, 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 Gladstone, Gladstone, North Dakota, as of and for the years ended December 31, 2017 and 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 audits. We conducted our audits 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 audits 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 Gladstone, Gladstone, North Dakota, as of December 31, 2017 and 2016, 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 audits were 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 schedules 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 schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information and the schedules 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 June 15, 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 15, 2018

CITY OF GLADSTONE

Management's Discussion and Analysis

December 31, 2017 and 2016

The Management's Discussion and Analysis (MD&A) of the City of Gladstone's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2017 and 2016. 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 increased \$55,061 as a result of the current year's operations. Net position of the governmental activities increased \$43,213 and net position of the business-type activities increased \$11,849.
- * Governmental net position totaled \$1,373,809 and business-type net position totaled \$149,605.
- * Total revenues from all sources were \$256,605 for governmental activities and \$107,525 for business-type activities.
- * Total expenses were \$213,393 for governmental activities and \$95,676 for business-type activities.
- * The city's general fund had \$256,605 in total revenues and \$184,038 in total expenditures. There was a total of \$8,800 received from other financing sources. Overall, the general fund balance increased by \$81,367 for the year ended December 31, 2017.

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city decreased \$549,387 as a result of the current year's operations. Net position of the governmental activities decreased \$731,381 and net position of the business-type activities increased \$181,994.
- * Governmental net position totaled \$1,330,597 and business-type net position totaled \$137,757.
- * Total revenues from all sources were \$199,633 for governmental activities and \$91,511 for business-type activities.
- * Total expenses were \$748,299 for governmental activities and \$92,232 for business-type activities.
- * The city's general fund had \$199,633 in total revenues and \$1,077,712 in total expenditures. There was a total of \$37,363 paid from other financing sources. Overall, the general fund balance decreased by \$915,441 for the year ended December 31, 2016.

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 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 years ended December 31, 2017 and 2016?"

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, streets and public works and culture and recreation. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

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, is considered a "major governmental fund". The city's utilities fund is considered a "major enterprise fund".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental 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 and 2016. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$55,061 and decreased by \$549,387 for the years ended December 31, 2017 and 2016, respectively. 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 \$1,523,414 is segregated into two separate categories. Net investment in capital assets represents 45% of the city's total net position. It should be noted that these assets are not available for future spending. The remaining unrestricted component of net position represents 55% 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	702,981	130,273
Capital Assets (net of accumulated depreciation)	670,828	19,332
 Total Assets	 <u>1,373,809</u>	 <u>149,605</u>
<u>Net Position</u>		
Net Investment in Capital Assets	670,828	19,332
Unrestricted	702,981	130,273
 Total Net Position	 <u>1,373,809</u> =====	 <u>149,605</u> =====

As of December 31, 2016, the city's net position of \$1,468,353 is segregated into three separate categories. Net investment in capital assets represents 49% 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 2% 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 49% of the city's net position and is available to meet the city's ongoing obligations.

Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	630,432	117,758
Capital Assets (net of accumulated depreciation)	700,165	19,999
 Total Assets	 <u>1,330,597</u>	 <u>137,757</u>
<u>Net Position</u>		
Net Investment in Capital Assets	700,165	19,999
Restricted	23,961	
Unrestricted	606,471	117,758
 Total Net Position	 <u>1,330,597</u> =====	 <u>137,757</u> =====

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Assets		
Current Assets	1,691,225	
Capital Assets (net of accumulated depreciation)	370,752	20,666
Total Assets	<u>2,061,977</u>	<u>20,666</u>
Liabilities		
Current Liabilities		64,903
Net Position		
Net Investment in Capital Assets	370,752	20,666
Restricted	154,170	
Unrestricted	1,537,055	(64,903)
Total Net Position	<u>2,061,977</u> =====	<u>(44,237)</u> =====

Table II shows the changes in net position for the fiscal years ended December 31, 2017 and 2016. A comparative analysis of city-wide data is presented for both current years 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	10,372	107,525
Operating Grants and Contributions	17,939	
<u>General Revenues:</u>		
Property Taxes	32,610	
Other Taxes	162,816	
Intergovernmental - Unrestricted	24,258	
Interest Earnings and Other Revenue	8,611	
Total Revenues	<u>256,605</u>	<u>107,525</u>
Expenses		
General Government	117,746	
Streets and Public Works	93,357	
Culture and Recreation	1,272	
Other	1,018	
Water		44,306
Garbage		38,869
Other		12,501
Total Expenses	<u>213,393</u>	<u>95,676</u>
Net Change in Position	<u>43,213</u> =====	<u>11,849</u> =====

Property taxes constituted 9%, other taxes 45%, unrestricted intergovernmental 7%, operating grants and contributions 5%, and charges for services made up 32% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 38%, streets and public works 30%, and enterprise 31% 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	3,004	91,511
Operating Grants and Contributions	18,587	
<u>General Revenues:</u>		
Property Taxes	22,847	
Other Taxes	122,951	
Intergovernmental - Unrestricted	26,105	
Interest Earnings and Other Revenue	6,139	
Total Revenues	<u>199,633</u>	<u>91,511</u>
Expenses		
General Government	95,425	
Streets and Public Works	648,166	
Culture and Recreation	3,708	
Other	1,000	
Water		45,663
Garbage		35,009
Other		11,560
Total Expenses	<u>748,299</u>	<u>92,232</u>
Net Change in Position Before Transfers	<u>(548,665)</u>	<u>(722)</u>
Transfers	<u>(182,715)</u>	<u>182,715</u>
Net Change in Position	<u>(731,381)</u>	<u>181,994</u>
	=====	=====

Property taxes constituted 8%, other taxes 42%, unrestricted intergovernmental 9%, operating grants and contributions 6%, and charges for services made up 32% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 11%, streets and public works 77%, and enterprise 11% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	9,224	94,776
Operating Grants and Contributions	1,038,845	
<u>General Revenues:</u>		
Property Taxes	24,065	
Other Taxes	112,389	
Intergovernmental - Unrestricted	29,682	
Interest Earnings and Other Revenue	35,640	
Gain on Sale of Capital Assets	6,520	
Total Revenues	1,256,365	94,776
Expenses		
General Government	65,250	
Streets and Public Works	95,714	
Culture and Recreation	33,039	
Other	1,000	
Water		102,951
Sewer		184,983
Garbage		26,173
Other		6,401
Total Expenses	195,003	320,508
Net Change in Position	1,061,362	(225,732)

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

	<u>Total Cost Year Ended Dec. 31, 2017</u>	<u>Net Cost Year Ended Dec. 31, 2017</u>
General Government	117,746	107,675
Streets and Public Works	93,357	75,118
Culture and Recreation	1,272	1,272
Other	1,018	1,018
Total Expenses	213,393	185,082

Total and Net Cost of Services
As of December 31, 2016

	<u>Total Cost Year Ended Dec. 31, 2016</u>	<u>Net Cost Year Ended Dec. 31, 2016</u>
General Government	95,425	92,420
Streets and Public Works	648,166	629,579
Culture and Recreation	3,708	3,708
Other	1,000	1,000
Total Expenses	748,299	726,707

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 \$256,605 and expenditures of \$184,038 for the year ended December 31, 2017. For the year ended December 31, 2016, the city's governmental funds had total revenue of \$199,633 and expenditures of \$1,077,712. As of December 31, 2017, the unassigned fund balance of the city's general fund was \$702,981. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$606,471.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal years 2017 and 2016, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2017 was \$59,131 more than budgeted. This budget variance was due to the city underestimating the total collected for oil and gas production taxes. Actual expenditures for the year ended December 31, 2017 were under budget by \$46,905. This budget variance was due to the city overestimating the budget for professional fees.

Actual revenue for the year ended December 31, 2016 was \$68,633 more than budgeted. The budget variance was due to the city underestimating the total collected for oil and gas production taxes. Actual expenditures for the year ended December 31, 2016 were over budget by \$632,287. This budget variance was the result of the city underestimating the appropriations for street and public works and not including appropriations for capital outlay.

CAPITAL ASSETS

As of December 31, 2017 and 2016, the city had \$690,160 and \$720,164, respectively, invested in capital assets. The following tables show the balances, for governmental activities, as of December 31, 2017, 2016 and 2015.

Table IV

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

	<u>Governmental</u>	<u>Business- Type</u>
Land	50,000	
Buildings and Infrastructure	467,716	19,332
Machinery and Vehicles	153,112	
Total (net of depreciation)	<u>670,828</u>	<u>19,332</u>
	=====	=====

This total represents a decrease of \$30,004 in capital assets from January 1, 2017.

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

	<u>Governmental</u>	<u>Business- Type</u>
Land	50,000	
Buildings and Infrastructure	489,860	19,999
Machinery and Vehicles	160,305	
Total (net of depreciation)	700,165	19,999

This total represents an increase of \$328,746 in capital assets from January 1, 2016. The increase in buildings and infrastructure was due to the city buying a building to be used for a city hall, land increased as the city purchased lots for a potential shop expansion and vehicles and machinery increased as the city purchased a tractor.

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	232,004	20,666
Machinery and Vehicles	138,748	
Total (net of depreciation)	370,752	20,666

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

DEBT ADMINISTRATION

As of December 31, 2017 and 2016, the city had no outstanding debt.

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 Jordan Ridl, City Auditor, Gladstone, ND.

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	702,981.20	130,273.21	833,254.41
Capital Assets (net of accumulated depreciation):			
Land	50,000.00		50,000.00
Buildings and Infrastructure	467,716.00	19,332.00	487,048.00
Machinery and Vehicles	153,112.00		153,112.00
Total Capital Assets	670,828.00	19,332.00	690,160.00
 Total Assets	 1,373,809.20	 149,605.21	 1,523,414.41
NET POSITION:			
Net Investment in Capital Assets	670,828.00	19,332.00	690,160.00
Unrestricted	702,981.20	130,273.21	833,254.41
 Total Net Position	 1,373,809.20	 149,605.21	 1,523,414.41

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash, Cash Equivalents and Investments	630,431.66	117,757.60	748,189.26
Capital Assets (net of accumulated depreciation):			
Land	50,000.00		50,000.00
Buildings and Infrastructure	489,860.00	19,999.00	509,859.00
Machinery and Vehicles	160,305.00		160,305.00
Total Capital Assets	700,165.00	19,999.00	720,164.00
 Total Assets	 1,330,596.66	 137,756.60	 1,468,353.26
NET POSITION:			
Net Investment in Capital Assets	700,165.00	19,999.00	720,164.00
Restricted for:			
Special Purposes	15,143.02		15,143.02
Debt Service	8,817.80		8,817.80
Unrestricted	606,470.84	117,757.60	724,228.44
 Total Net Position	 1,330,596.66	 137,756.60	 1,468,353.26

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Functions/Programs					
Primary Government:					
Governmental Activities:					
General Government	117,746.46	10,071.59		(107,674.87)	(107,674.87)
Streets and Public Works	93,356.75	300.00	17,938.80	(75,117.95)	(75,117.95)
Culture and Recreation	1,271.65			(1,271.65)	(1,271.65)
Other	1,018.00			(1,018.00)	(1,018.00)
Total Governmental Activities	213,392.86	10,371.59	17,938.80	(185,082.47)	(185,082.47)
Business-Type Activities:					
Water	44,306.23	36,447.41		(7,858.82)	(7,858.82)
Sewer		17,189.61		17,189.61	17,189.61
Garbage	38,869.36	44,814.48		5,945.12	5,945.12
Other	12,500.84	9,073.54		(3,427.30)	(3,427.30)
Total Business-Type Activities	95,676.43	107,525.04		11,848.61	11,848.61
Total Primary Government	309,069.29	117,896.63	17,938.80	(185,082.47)	11,848.61
=====					
General Revenues:					
Taxes:					
Property taxes; levied for general purposes			32,609.73		32,609.73
Cigarette taxes			687.60		687.60
Telecommunications taxes			923.83		923.83
Oil and gas production taxes			161,205.05		161,205.05
Intergovernmental revenue not restricted to specific programs			24,257.67		24,257.67
Earnings on investments and other revenue			8,611.13		8,611.13
Total General Revenues			228,295.01		228,295.01
Change in Net Position			43,212.54	11,848.61	55,061.15
Net Position - January 1			1,330,596.66	137,756.60	1,468,353.26
Net Position - December 31			1,373,809.20	149,605.21	1,523,414.41
=====					

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

	Net (Expense) Revenue and Changes in Net Position					
	Program Revenues			Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Primary Government:						
Governmental Activities:						
General Government	95,424.71	3,004.33		(92,420.38)		(92,420.38)
Streets and Public Works	648,166.13		18,587.29	(629,578.84)		(629,578.84)
Culture and Recreation	3,707.86			(3,707.86)		(3,707.86)
Other	1,000.00			(1,000.00)		(1,000.00)
Total Governmental Activities	748,298.70	3,004.33	18,587.29	(726,707.08)		(726,707.08)
Business-Type Activities:						
Water	45,663.13	43,153.26			(2,509.87)	(2,509.87)
Sewer		13,832.48			13,832.48	13,832.48
Garbage	35,008.77	27,107.49			(7,901.28)	(7,901.28)
Other	11,560.18	7,417.27			(4,142.91)	(4,142.91)
Total Business-Type Activities	92,232.08	91,510.50			(721.58)	(721.58)
Total Primary Government	840,530.78	94,514.83	18,587.29	(726,707.08)	(721.58)	(727,428.66)
General Revenues:						
Taxes:						
Property taxes; levied for general purposes				22,829.29		22,829.29
Property taxes; levied for special purposes				17.88		17.88
Cigarette taxes				723.37		723.37
Telecommunications taxes				923.83		923.83
Oil and gas production taxes				121,303.73		121,303.73
Intergovernmental revenue not restricted to specific programs				26,104.82		26,104.82
Earnings on investments and other revenue				6,138.91		6,138.91
Transfers				(182,715.26)	182,715.26	
Total General Revenues and Transfers				(4,673.43)	182,715.26	178,041.83
Change in Net Position				(731,380.51)	181,993.68	(549,386.83)
Net Position - January 1				2,061,977.17	(44,237.08)	2,017,740.09
Net Position - December 31				1,330,596.66	137,756.60	1,468,353.26

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Major Fund

	General

<u>ASSETS:</u>	
Cash, Cash Equivalents and Investments	702,981.20 =====
<u>FUND BALANCE:</u>	
Unassigned	702,981.20 =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

	Major Fund		
	General	Other Governmental Fund	Total Governmental Funds
ASSETS:			
Cash, Cash Equivalents and Investments	621,613.86	8,817.80	630,431.66
	=====		
FUND BALANCES:			
Restricted for:			
Street and Public Works	15,143.02		15,143.02
Debt Service		8,817.80	8,817.80
Unassigned	606,470.84		606,470.84

Total Fund Balances	621,613.86	8,817.80	630,431.66
	=====		

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

CITY OF GLADSTONE
Gladstone, 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		702,981.20
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	964,302.00	
Less Accumulated Depreciation	(293,474.00)	
Net Capital Assets	<hr/>	670,828.00
Total Net Position of Governmental Activities		<hr/> <u>1,373,809.20</u> =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds		630,431.66
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	959,002.00	
Less Accumulated Depreciation	(258,837.00)	
Net Capital Assets	<hr/>	700,165.00
Total Net Position of Governmental Activities		<hr/> <u>1,330,596.66</u> =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Major Fund		Total Governmental Funds
	General	Other Governmental Fund	
Revenues:			
Taxes	33,533.56		33,533.56
Special Assessments	4,009.36		4,009.36
Licenses, Permits and Fees	10,071.59		10,071.59
Intergovernmental	204,089.12		204,089.12
Charges for Services	300.00		300.00
Miscellaneous	4,601.77		4,601.77
Total Revenues	256,605.40		256,605.40
Expenditures:			
Current:			
General Government	108,263.46		108,263.46
Streets and Public Works	63,752.75		63,752.75
Culture and Recreation	1,271.65		1,271.65
Other		18.00	18.00
Capital Outlay	10,750.00		10,750.00
Total Expenditures	184,037.86	18.00	184,055.86
Excess (Deficiency) of Revenues Over Expenditures	72,567.54	(18.00)	72,549.54
Other Financing Sources (Uses):			
Transfers In	8,799.80		8,799.80
Transfers Out		(8,799.80)	(8,799.80)
Total Other Financing Sources (Uses)	8,799.80	(8,799.80)	
Net Change in Fund Balances	81,367.34	(8,817.80)	72,549.54
Fund Balance - January 1	621,613.86	8,817.80	630,431.66
Fund Balance - December 31	702,981.20	-0-	702,981.20

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Fund		
	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	23,771.00		23,771.00
Special Assessments	2,895.79		2,895.79
Licenses, Permits and Fees	3,004.33		3,004.33
Intergovernmental	166,719.21		166,719.21
Miscellaneous	3,243.12		3,243.12
Total Revenues	199,633.45		199,633.45
<u>Expenditures:</u>			
Current:			
General Government	85,941.71		85,941.71
Streets and Public Works	621,262.13		621,262.13
Culture and Recreation	3,707.86		3,707.86
Capital Outlay	366,800.00		366,800.00
Total Expenditures	1,077,711.70		1,077,711.70
Excess (Deficiency) of Revenues Over Expenditures	(878,078.25)		(878,078.25)
<u>Other Financing Sources (Uses):</u>			
Transfers In	145,352.41		145,352.41
Transfers Out	(182,715.26)	(145,352.41)	(328,067.67)
Total Other Financing Sources (Uses)	(37,362.85)	(145,352.41)	(182,715.26)
Net Change in Fund Balances	(915,441.10)	(145,352.41)	(1,060,793.51)
Fund Balance - January 1	1,537,054.96	154,170.21	1,691,225.17
Fund Balance - December 31	621,613.86	8,817.80	630,431.66

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

CITY OF GLADSTONE
Gladstone, 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	72,549.54
--	-----------

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.

	10,750.00	
Current Year Capital Outlay	(40,087.00)	(29,337.00)
Current Year Depreciation Expense	-----	-----
Change in Net Position of Governmental Activities		43,212.54 =====

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

CITY OF GLADSTONE
Gladstone, 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, 2016

Net Change in Fund Balances - Total Governmental Funds	(1,060,793.51)
--	----------------

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 capital outlay exceeded depreciation in the current year.

	366,800.00	
Current Year Capital Outlay	(37,387.00)	329,413.00
Current Year Depreciation Expense	<hr/>	<hr/>
Change in Net Position of Governmental Activities		(731,380.51) =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Enterprise Fund
	Utilities
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	130,273.21
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr):	
Buildings and Infrastructure	19,332.00
Total Assets	149,605.21
<u>NET POSITION</u>	
Net Investment in Capital Assets	19,332.00
Unrestricted	130,273.21
Total Net Position	149,605.21

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Fund
December 31, 2016

	Enterprise Fund
	Utilities
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	117,757.60
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr):	
Buildings and Infrastructure	19,999.00
Total Assets	137,756.60 =====
<u>NET POSITION</u>	
Net Investment in Capital Assets	19,999.00
Unrestricted	117,757.60
Total Net Position	137,756.60 =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Enterprise Fund
	Utilities
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Collections	34,470.68
Sewer Collections	17,189.61
Garbage Collections	44,814.48
Street Lights	9,073.54
Other Collections	1,976.73
Total Operating Revenues	107,525.04
<u>Operating Expenses:</u>	
Water	43,639.23
Garbage	38,869.36
Other	12,500.84
Depreciation	667.00
Total Operating Expenses	95,676.43
Operating Income	11,848.61
Net Position - January 1	137,756.60
Net Position - December 31	149,605.21

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Fund
For the Year Ended December 31, 2016

	Enterprise Fund
	Utilities
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Collections	41,058.28
Sewer Collections	13,832.48
Garbage Collections	27,107.49
Street Lights	7,417.27
Other Collections	2,094.98
Total Operating Revenues	91,510.50
<u>Operating Expenses:</u>	
Water	44,996.13
Garbage	35,008.77
Other	11,560.18
Depreciation	667.00
Total Operating Expenses	92,232.08
Income (Loss) Before Transfers	(721.58)
Transfer In	182,715.26
Change in Net Position	181,993.68
Net Position - January 1	(44,237.08)
Net Position - December 31	137,756.60

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

CITY OF GLADSTONE
Gladstone, North Dakota

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

	Enterprise Fund
	Utilities
<u>Cash flows from operating activities:</u>	
Receipts from customers	107,525.04
Payments to suppliers and employees	(95,009.43)
	12,515.61
Net cash provided (used) by operating activities	12,515.61
Cash and cash equivalents, January 1	117,757.60
Cash and cash equivalents, December 31	130,273.21
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	11,848.61
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	667.00
Net cash provided (used) by operating activities	12,515.61

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Enterprise Fund
	Utilities
<u>Cash flows from operating activities:</u>	
Receipts from customers	91,510.50
Payments to suppliers and employees	(91,565.08)
	(54.58)
<u>Cash flows from noncapital financing activities:</u>	
Transfers in	182,715.26
Net increase in cash and cash equivalents	182,660.68
Cash and cash equivalents, January 1	(64,903.08)
Cash and cash equivalents, December 31	117,757.60
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating loss	(721.58)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	667.00
Net cash provided (used) by operating activities	(54.58)

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Fund
December 31, 2017

	Agency Fund
<u>Assets:</u>	
Cash	55,202.92
	=====
<u>Liabilities:</u>	
Due to Other Governments	55,202.92
	=====

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

CITY OF GLADSTONE
Gladstone, North Dakota

Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Agency Fund
December 31, 2016

	Agency Fund
<u>Assets:</u>	
Cash	64,171.71 =====
<u>Liabilities:</u>	
Due to Other Governments	64,171.71 =====

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

CITY OF GLADSTONE
Gladstone, North Dakota

Notes to the Financial Statements
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gladstone 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 Gladstone 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 Gladstone. 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 including its fiduciary funds. Separate statements for each fund category - *governmental, proprietary and fiduciary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental 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 fund:

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.

The city reports the following major enterprise fund:

Utilities Fund. This fund accounts for the activities of the city's water distribution system, sewage collection system and garbage collection system.

The city reports the following fund type:

Agency Fund. This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for various deposits of the park district.

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	25 to 100 years
Machinery and Vehicles	6 to 20 years

F. Compensated Absences

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

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

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 \$888,457 and the bank balance was \$890,822. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$640,822 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2016 the city's carrying amount of deposits was \$812,361 and the bank balance was \$813,690. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$563,690 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 \$260,889, which are all considered deposits.

At December 31, 2016 the city held certificates of deposit in the amount of \$260,889, 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 CAPITAL ASSETS

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

	<u>2017</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	50,000			50,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	663,200			663,200
Machinery and Vehicles	245,802	42,100	36,800	251,102
Total	592,202	42,100	36,800	914,302
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	173,340	22,144		195,484
Machinery and Vehicles	85,497	17,943	5,450	97,990
Total	258,837	40,087	5,450	293,474
Total capital assets being depreciated, net	650,165	2,013	31,350	620,828
Governmental Activities Capital Assets, Net	700,165	2,013	31,350	670,828

<u>2016</u>				
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land		50,000		50,000
<hr/>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	383,200	280,000		663,200
Machinery and Vehicles	209,002	36,800		245,802
Total	<hr/> 592,202	<hr/> 316,800		<hr/> 909,002
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	151,196	22,144		173,340
Machinery and Vehicles	70,254	15,243		85,497
Total	<hr/> 221,450	<hr/> 37,387		<hr/> 258,837
<hr/>				
Total capital assets being depreciated, net	370,752	279,413		650,165
<hr/>				
Governmental Activities Capital Assets, Net	370,752	329,413	-0-	700,165
<hr/> <hr/>				

<u>2017</u>				
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	50,000			50,000
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	30,001	667		30,668
<hr/>				
Business-type Activities Capital Assets, Net	19,999	(667)	-0-	19,332
<hr/> <hr/>				

2016

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	50,000			50,000
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	29,334	667		30,001
<hr/>				
Business-type Activities Capital Assets, Net	20,666	(667)	-0-	19,999
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

	<u>2017</u>	<u>2016</u>
<u>Governmental Activities:</u>		
General Government	9,483	9,483
Streets and Public Works	29,604	26,904
Other	1,000	1,000
Total	<hr/> <hr/> 40,087	<hr/> <hr/> 37,387
<u>Business-type Activities:</u>		
Utilities	<hr/> <hr/> 667	<hr/> <hr/> 667

Note 5 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2017</u>		
General Fund	8,799.80	
Refunding Imp. Bonds of 2004		8,799.80
To close old debt service fund.		
<u>December 31, 2016</u>		
General Fund	145,352.41	
Highway Tax		145,352.41
To close fund as the city accounts for these transactions as part of the general fund.		
Utilities	182,715.26	
General Fund:		
Surge Funding		182,715.26
To reimburse the utilities fund for prior year sewer project.		

Note 6 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability and automobile; and \$231,882 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 \$402,000 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.

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

CITY OF GLADSTONE
Gladstone, 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)
<u>Revenues:</u>				
Taxes	30,000.00	30,000.00	33,533.56	3,533.56
Special Assessments	2,700.00	2,700.00	4,009.36	1,309.36
Licenses, Permits and Fees	3,835.00	3,835.00	10,071.59	6,236.59
Intergovernmental	157,523.83	157,523.83	204,089.12	46,565.29
Charges for Services			300.00	300.00
Miscellaneous	3,416.00	3,416.00	4,601.77	1,185.77
Total Revenues	197,474.83	197,474.83	256,605.40	59,130.57
<u>Expenditures:</u>				
Current:				
General Government	160,056.24	160,056.24	108,263.46	51,792.78
Street and Public Works	60,280.00	60,280.00	63,752.75	(3,472.75)
Culture and Recreation	607.01	607.01	1,271.65	(664.64)
Capital Outlay	10,000.00	10,000.00	10,750.00	(750.00)
Total Expenditures	230,943.25	230,943.25	184,037.86	46,905.39
Excess (Deficiency) of Revenues Over Expenditures	(33,468.42)	(33,468.42)	72,567.54	106,035.96
<u>Other Financing Sources:</u>				
Transfer In			8,799.80	8,799.80
Net Change in Fund Balances	(33,468.42)	(33,468.42)	81,367.34	114,835.76
Fund Balance - January 1	621,613.86	621,613.86	621,613.86	
Fund Balance - December 31	588,145.44	588,145.44	702,981.20	114,835.76

CITY OF GLADSTONE
Gladstone, 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)
<u>Revenues:</u>				
Taxes	25,000.00	25,000.00	23,771.00	(1,229.00)
Special Assessments			2,895.79	2,895.79
Licenses, Permits and Fees	10,000.00	10,000.00	3,004.33	(6,995.67)
Intergovernmental	96,000.00	96,000.00	166,719.21	70,719.21
Miscellaneous			3,243.12	3,243.12
Total Revenues	131,000.00	131,000.00	199,633.45	68,633.45
<u>Expenditures:</u>				
Current:				
General Government	135,425.00	135,425.00	85,941.71	49,483.29
Street and Public Works	290,000.00	290,000.00	621,262.13	(331,262.13)
Culture and Recreation	20,000.00	20,000.00	3,707.86	16,292.14
Capital Outlay			366,800.00	(366,800.00)
Total Expenditures	445,425.00	445,425.00	1,077,711.70	(632,286.70)
Excess (Deficiency) of Revenues Over Expenditures	(314,425.00)	(314,425.00)	(878,078.25)	(563,653.25)
<u>Other Financing Sources (Uses):</u>				
Transfer In			145,352.41	145,352.41
Transfer Out			(182,715.26)	(182,715.26)
Total Other Financing Sources (Uses)			(37,362.85)	(37,362.85)
Net Change in Fund Balances	(314,425.00)	(314,425.00)	(915,441.10)	(601,016.10)
Fund Balance - January 1	1,537,054.96	1,537,054.96	1,537,054.96	
Fund Balance - December 31	1,222,629.96	1,222,629.96	621,613.86	(601,016.10)

CITY OF GLADSTONE
Gladstone, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2017 and 2016

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 and special revenue 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

The governing board did not amend the budgets during the years ended December 31, 2017 and 2016.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
General Fund		632,286.70
<u>Debt Service Fund</u>		
* Refunding Imp. Bonds of 2004	18.00	

* A budget was not prepared for this fund for the year ending December 31, 2017.

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

CITY OF GLADSTONE
 Gladstone, 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
<u>Major Governmental Fund</u>						
General Fund	621,613.86	256,605.40	8,799.80		184,037.86	702,981.20
<u>Non-Major Governmental Fund</u>						
Refunding Imp. Bonds of 2004	8,817.80			8,799.80	18.00	
Total Governmental Funds	630,431.66	256,605.40	8,799.80	8,799.80	184,055.86	702,981.20
<u>Major Enterprise Fund</u>						
Utilities	117,757.60	107,525.04			95,009.43	130,273.21
<u>Agency Fund</u>						
Park District	64,171.71	1,760.73			10,729.52	55,202.92
Total All Funds	812,360.97	365,891.17	8,799.80	8,799.80	289,794.81	888,457.33

CITY OF GLADSTONE
Gladstone, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
<u>Major Governmental Fund</u>						
General Fund:						
Operating	518,016.78	199,633.45	145,352.41		241,388.78	621,613.86
Surge Funding	1,019,038.18			182,715.26	836,322.92	
Total General Fund	1,537,054.96	199,633.45	145,352.41	182,715.26	1,077,711.70	621,613.86
<u>Non-Major Governmental Funds</u>						
Highway Tax	145,352.41			145,352.41		
Refunding Imp. Bonds of 2004	8,817.80					8,817.80
Total Non-Major Governmental Funds	154,170.21			145,352.41		8,817.80
Total Governmental Funds	1,691,225.17	199,633.45	145,352.41	328,067.67	1,077,711.70	630,431.66
<u>Major Enterprise Fund</u>						
Utilities	(64,903.08)	91,510.50	182,715.26		91,565.08	117,757.60
<u>Agency Fund</u>						
Park District		64,276.90			105.19	64,171.71
Total All Funds	1,626,322.09	355,420.85	328,067.67	328,067.67	1,169,381.97	812,360.97

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-268-4560
Fax 701-268-4983

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 Gladstone
Gladstone, 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 Gladstone, Gladstone, North Dakota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated June 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits 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 audits, 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 audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits 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

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 15, 2018

CITY OF GLADSTONE
Gladstone, North Dakota

Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

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

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Noncompliance Material to financial
statements noted? Yes 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 and 2016 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.

Rath & Mehrer, P.C.

Certified Public Accountants

Jayson Rath, CPA
Ken Mehrer, CPA
Bryce Fischer, CPA

425 North Fifth Street
Bismarck, ND 58501
Phone 701-258-4580
Fax 701-258-4983

Governing Board
City of Gladstone
Gladstone, North Dakota

Our audits of the financial records of the City of Gladstone, Gladstone, North Dakota, for the years ended December 31, 2017 and 2016 have disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

* * * * *

REVIEW OF PLEDGE OF SECURITIES

Per our review of the governing board's minutes, we did not note a semi-annual review of the pledge of securities. NDCC section 21-04-11 requires the governing board to review the pledge of securities at least every six months to determine if security pledges are adequate or are needed to protect city deposits. We recommend the board review the pledge of securities semi-annually and such action should be noted in the minutes.

UTILITY COLLECTIONS

Due to the small size of the city and the limited personnel involved, the city has one utility clerk that is responsible for most of the duties pertaining to preparing the monthly utility billings, posting to accounts and is involved in preparing the deposit. The utility clerk is currently printing out a posting sheet from the Banyan Utility program that shows each account, patron name and each payment made. This posting sheet also shows the total dollar amount that has been posted for the batch. The city auditor is currently reviewing each deposit as part of reconciling the city's checking account. To add an additional control, we recommend that the auditor also review each of these posting sheets and agree to the total of the receipt written and total deposit.

* * * * *

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audits.



Rath and Mehrer, P.C.

June 15, 2018