

# **AUDIT REPORT**

CITY OF KENMARE  
Kenmare, North Dakota

For the Years Ended December 31, 2017 and 2016.

**RATH & MEHRER, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF KENMARE  
Kenmare, North Dakota

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For the Years Ended December 31, 2017 and 2016

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CITY OF KENMARE  
Kenmare, North Dakota

CITY OFFICIALS

Dwight Flygare	Mayor
Todd Ankenbauer	President
Ken Keysor	Vice President
Glen Froseth	Alderman
Kirk Harris	Alderman
Jamie Livingston	Alderman
Terese Schmidt	Alderman
Marki Ellis	Auditor

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Kenmare  
Kenmare, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kenmare, Kenmare, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kenmare, Kenmare, 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 years 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 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 audits 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 September 28, 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

September 28, 2018

CITY OF KENMARE

Management's Discussion and Analysis

December 31, 2017 and 2016

The Management's Discussion and Analysis (MD&A) of the City of Kenmare'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 \$323,720 as a result of the current year's operations. Net position of the governmental activities decreased \$31,144 and net position of the business-type activities increased \$354,865.
- \* Governmental net position totaled \$2,478,443 and business-type net position totaled \$4,081,521.
- \* Total revenues from all sources were \$1,082,825 for governmental activities and \$1,095,870 for business-type activities.
- \* Total expenses were \$1,158,970 for governmental activities and \$696,005 for business-type activities.
- \* The city's general fund had \$520,384 in total revenues and \$525,616 in total expenditures. There was a total of \$64,404 from other financing sources. Overall, the general fund balance increased by \$59,172 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 \$38,973 as a result of the current year's operations. Net position of the governmental activities increased \$8,011 and net position of the business-type activities decreased \$46,985.
- \* Governmental net position totaled \$2,509,588 and business-type net position totaled \$3,726,656.
- \* Total revenues from all sources were \$1,042,966 for governmental activities and \$692,381 for business-type activities.
- \* Total expenses were \$1,079,955 for governmental activities and \$694,366 for business-type activities.
- \* The city's general fund had \$463,746 in total revenues and \$553,444 in total expenditures. There was a total of \$87,047 from other financing sources. Overall, the general fund balance decreased by \$2,651 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 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 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, 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 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, highway distribution fund, sales tax fund and street improvement district no. 7 fund are considered "major governmental funds". The city's water fund, sewer fund, garbage and landfill fund and water and sewer improvement district 1993-1 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" and "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 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 \$323,720 and decreased by \$38,973 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 \$6,559,965 is segregated into three separate categories. Net investment in capital assets totals \$6,033,760. It should be noted that these assets are not available for future spending. The restricted component of net position is \$781,181 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$254,977), which includes (\$261,216) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$6,239 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	290,287	500,892
Capital Assets (net of accumulated depreciation)	3,803,328	4,878,229
Total Assets	<u>4,093,615</u>	<u>5,379,121</u>
Deferred Outflows of Resources	161,114	
<u>Liabilities</u>		
Current Liabilities	118,781	156,700
Long-Term Liabilities	1,231,415	1,140,900
Net Pension Liability	358,932	
Total Liabilities	<u>1,709,128</u>	<u>1,297,600</u>
Deferred Inflows of Resources	67,157	
<u>Net Position</u>		
Net Investment in Capital Assets	2,453,131	3,580,629
Restricted	339,322	441,860
Unrestricted	(314,010)	59,033
Total Net Position	<u>2,478,443</u> =====	<u>4,081,521</u> =====

As of December 31, 2016, the city's net position of \$6,236,244 is segregated into three separate categories. Net investment in capital assets totals \$5,705,083. It should be noted that these assets are not available for future spending. The restricted component of net position is \$775,307 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$244,146), which includes (\$236,350) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of (\$7,796) 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	283,627	488,292
Capital Assets (net of accumulated depreciation)	4,024,538	5,027,009
Total Assets	4,308,165	5,515,301
Deferred Outflows of Resources	54,238	
<u>Liabilities</u>		
Current Liabilities	118,511	491,045
Long-Term Liabilities	1,439,308	1,297,600
Net Pension Liability	190,336	
Total Liabilities	1,748,155	1,788,645
Deferred Inflows of Resources	104,660	
<u>Net Position</u>		
Net Investment in Capital Assets	2,466,719	3,238,364
Restricted	406,716	368,591
Unrestricted	(363,847)	119,702
Total Net Position	2,509,588	3,726,656

Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	375,575	540,196
Capital Assets (net of accumulated depreciation)	4,228,325	5,153,381
Total Assets	4,603,900	5,693,577
Deferred Outflows of Resources	43,183	
<u>Liabilities</u>		
Current Liabilities	206,939	153,700
Long-Term Liabilities	1,647,075	1,766,236
Net Pension Liability	244,978	
Total Liabilities	2,098,992	1,919,936
Deferred Inflows of Resources	46,515	
<u>Net Position</u>		
Net Investment in Capital Assets	2,374,311	3,233,445
Restricted	502,971	305,193
Unrestricted	(375,705)	235,003
Total Net Position	2,501,577	3,773,641

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>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	147,180	713,626
Operating Grants and Contributions	174,984	
Capital Grants and Contributions	118,340	381,660
<u>General Revenues:</u>		
Property Taxes	347,451	
Other Taxes	210,694	
Intergovernmental - Unrestricted	73,783	
Interest Earnings and Other Revenue	10,394	584
<b>Total Revenues</b>	<u>1,082,825</u>	<u>1,095,870</u>
<b>Expenses</b>		
General Government	274,950	
Public Safety	241,609	
Streets and Public Works	479,674	
Urban and Economic Development	32,158	
Culture and Recreation	78,061	
Other	25,445	
Interest on Long-term Debt	27,073	
Water		239,848
Sewer		60,933
Garbage and Landfill		203,421
Water and Sewer Imp. District		191,802
<b>Total Expenses</b>	<u>1,158,970</u>	<u>696,005</u>
<b>Net Change in Position Before Transfers</b>	<u>(76,144)</u>	<u>399,865</u>
<b>Transfers</b>	<u>45,000</u>	<u>(45,000)</u>
<b>Net Change in Position</b>	<u>(31,144)</u>	<u>354,865</u>
	=====	=====

Property taxes constituted 16%, other taxes 10%, unrestricted intergovernmental 3%, grants and contributions 31%, and charges for services made up 40% of the total revenues of all activities of the city for the fiscal year ended December 31, 2017.

General government constituted 15%, public safety 13%, streets and public works 26%, 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>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	150,496	689,463
Operating Grants and Contributions	243,859	2,248
<u>General Revenues:</u>		
Property Taxes	251,196	
Other Taxes	220,558	
Intergovernmental - Unrestricted	106,806	
Interest Earnings and Other Revenue	70,051	670
Total Revenues	1,042,966	692,381
<b>Expenses</b>		
General Government	299,162	
Public Safety	231,318	
Streets and Public Works	378,431	
Urban and Economic Development	52,058	
Culture and Recreation	73,386	
Other	16,987	
Interest on Long-term Debt	28,612	
Water		237,433
Sewer		96,229
Garbage and Landfill		211,414
Water and Sewer Imp. District		149,291
Total Expenses	1,079,955	694,366
Net Change in Position Before Transfers	(36,989)	(1,985)
Transfers	45,000	(45,000)
Net Change in Position	8,011	(46,985)

Property taxes constituted 14%, other taxes 13%, unrestricted intergovernmental 6%, grants and contributions 14%, and charges for services made up 48% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 17%, public safety 13%, streets and public works 21%, and enterprise 39% 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>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	155,072	680,953
Operating Grants and Contributions	1,200,950	
Capital Grants and Contributions		1,378,938
<u>General Revenues:</u>		
Property Taxes	194,186	
Other Taxes	328,506	
Intergovernmental - Unrestricted	110,326	
Interest Earnings and Other Revenue	55,504	21,197
Gain on Trade-in of Capital Assets	23,367	
<b>Total Revenues</b>	<b>2,067,912</b>	<b>2,081,088</b>
<b>Expenses</b>		
General Government	244,351	
Public Safety	268,376	
Streets and Public Works	1,087,160	
Urban and Economic Development	231,469	
Culture and Recreation	105,717	
Other	27,417	
Interest on Long-term Debt	34,541	
Water		236,704
Sewer		116,170
Garbage and Landfill		182,124
Water and Sewer Imp. District		117,738
<b>Total Expenses</b>	<b>1,999,030</b>	<b>652,736</b>
<b>Net Change in Position Before Transfers</b>	<b>68,882</b>	<b>1,428,352</b>
<b>Transfers</b>	<b>45,000</b>	<b>(45,000)</b>
<b>Net Change in Position</b>	<b>113,882</b>	<b>1,383,352</b>

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	274,950	219,230
Public Safety	241,609	200,602
Streets and Public Works	479,674	277,540
Urban and Economic Development	32,158	12,626
Culture and Recreation	78,061	33,498
Other	25,445	25,445
Interest on Long-term Debt	27,073	(50,475)
<b>Total Expenses</b>	<b>1,158,970</b>	<b>718,466</b>

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

	Total Cost Year Ended Dec. 31, 2016	Net Cost Year Ended Dec. 31, 2016
General Government	299,162	240,636
Public Safety	231,318	146,311
Streets and Public Works	378,431	311,186
Urban and Economic Development	52,058	11,223
Culture and Recreation	73,386	25,054
Other	16,987	16,987
Interest on Long-term Debt	28,612	(65,796)
<b>Total Expenses</b>	<b>1,079,955</b>	<b>685,599</b>
	=====	=====

**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 \$1,082,825 and expenditures of \$1,121,165 for the year ended December 31, 2017. For the year ended December 31, 2016, the city's governmental funds had total revenue of \$1,042,966 and expenditures of \$1,179,915. As of December 31, 2017, the unassigned fund balance of the city's general fund was (\$8,610) and total unassigned fund balances for all the city's governmental funds was (\$49,035). As of December 31, 2016, the unassigned fund balance of the city's general fund was (\$67,783) and total unassigned fund balances for all the city's governmental funds was (\$123,090).

**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 \$16,233 less than budgeted. Actual expenditures for the year ended December 31, 2017 were under budget by \$59,194. The budget variance was the result of the city overestimating appropriations for expenditures related to employee salaries and benefits included in general government.

Actual revenue for the year ended December 31, 2016 was \$88,258 less than budgeted. This budget variance was due to the city overestimating the amount of tax collections and collections for camping fees. Actual expenditures for the year ended December 31, 2016 were under budget by \$36,556.

**CAPITAL ASSETS**

As of December 31, 2017 and 2016, the city had \$8,681,557 and \$9,051,547, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type 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		20,000
Buildings and Infrastructure	3,546,815	4,853,230
Machinery and Vehicles	256,513	4,999
<b>Total (net of depreciation)</b>	<b>3,803,328</b>	<b>4,878,229</b>
	=====	=====

This total represents a decrease of \$369,990 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		20,000
Buildings and Infrastructure	3,733,561	5,000,343
Machinery and Vehicles	290,977	6,666
Total (net of depreciation)	4,024,538	5,027,009

This total represents a decrease of \$330,159 in capital assets from January 1, 2016.

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

	<u>Governmental</u>	<u>Business- Type</u>
Land		20,000
Construction in Progress		2,483,000
Buildings and Infrastructure	3,920,307	2,642,048
Machinery and Vehicles	308,018	8,333
Total (net of depreciation)	4,228,325	5,153,381

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.

**DEBT ADMINISTRATION**

As of December 31, 2017, the city had \$2,651,555 in outstanding debt of which \$275,481 was due within one year. As of December 31, 2016, the city had \$3,350,872 in outstanding debt of which \$609,556 was due within one year. During fiscal years 2017 and 2016, the city issued one new long-term debt obligation:

Revenue Bonds Payable in the amount of \$22,408.90. The city obtained a loan (available funding of \$400,000) from the State Bank of Kenmare to provide funding for a lagoon improvement project. This loan was paid in full during 2017.

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 Grant Johnson, City Auditor, Kenmare, ND.

CITY OF KENMARE  
Kenmare, North Dakota

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
<b>ASSETS:</b>				
Cash and Cash Equivalents	290,286.93	500,892.33	791,179.26	20,025.41
Capital Assets (net of accumulated depreciation):				
Land		20,000.00	20,000.00	
Buildings and Infrastructure	3,546,815.00	4,853,230.00	8,400,045.00	940,154.00
Machinery and Vehicles	256,513.00	4,999.00	261,512.00	9,500.00
<b>Total Capital Assets</b>	<b>3,803,328.00</b>	<b>4,878,229.00</b>	<b>8,681,557.00</b>	<b>949,654.00</b>
<b>Total Assets</b>	<b>4,093,614.93</b>	<b>5,379,121.33</b>	<b>9,472,736.26</b>	<b>969,679.41</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Changes in Resources Related to Pensions	161,114.00		161,114.00	
<b>LIABILITIES:</b>				
<b>Long-Term Liabilities:</b>				
<b>Due Within One Year:</b>				
Special Assessment Bonds Payable	118,781.28		118,781.28	
Revenue Bonds Payable		156,700.00	156,700.00	
<b>Due After One Year:</b>				
Loans Payable	89,111.58		89,111.58	
Special Assessment Bonds Payable	1,142,303.70		1,142,303.70	
Revenue Bonds Payable		1,140,900.00	1,140,900.00	
Compensated Absences Payable	3,758.93		3,758.93	
Net Pension Liability	355,173.00		355,173.00	
<b>Total Liabilities</b>	<b>1,709,128.49</b>	<b>1,297,600.00</b>	<b>3,006,728.49</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Changes in Resources Related to Pensions	67,157.00		67,157.00	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	2,453,131.44	3,580,629.00	6,033,760.44	949,654.00
Restricted for:				
Debt Service	191,287.25	306,419.60	497,706.85	
Special Purposes	148,034.31	135,440.16	283,474.47	
Unrestricted	(314,009.56)	59,032.57	(254,976.99)	20,025.41
<b>Total Net Position</b>	<b>2,478,443.44</b>	<b>4,081,521.33</b>	<b>6,559,964.77</b>	<b>969,679.41</b>

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



CITY OF KENMARE  
Kenmare, North Dakota

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
<b>ASSETS:</b>				
Cash and Cash Equivalents	283,626.70	488,292.27	771,918.97	45,455.46
Capital Assets (net of accumulated depreciation):				
Land		20,000.00	20,000.00	
Buildings and Infrastructure	3,733,561.00	5,000,343.00	8,733,904.00	1,018,500.00
Machinery and Vehicles	290,977.00	6,666.00	297,643.00	11,400.00
<b>Total Capital Assets</b>	<b>4,024,538.00</b>	<b>5,027,009.00</b>	<b>9,051,547.00</b>	<b>1,029,900.00</b>
<b>Total Assets</b>	<b>4,308,164.70</b>	<b>5,515,301.27</b>	<b>9,823,465.97</b>	<b>1,075,355.46</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Changes in Resources Related to Pensions	54,238.00		54,238.00	
<b>LIABILITIES:</b>				
Long-Term Liabilities:				
Due Within One Year:				
Loans Payable				30,000.00
Special Assessment Bonds Payable	118,510.91		118,510.91	
Revenue Bonds Payable		491,044.88	491,044.88	
Due After One Year:				
Loans Payable	178,223.17		178,223.17	
Special Assessment Bonds Payable	1,261,084.98		1,261,084.98	
Revenue Bonds Payable		1,297,600.00	1,297,600.00	
Compensated Absences Payable	4,407.71		4,407.71	
Net Pension Liability	185,928.00		185,928.00	
<b>Total Liabilities</b>	<b>1,748,154.77</b>	<b>1,788,644.88</b>	<b>3,536,799.65</b>	<b>30,000.00</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Changes in Resources Related to Pensions	104,660.00		104,660.00	
<b>NET POSITION:</b>				
Net Investment in Capital Assets	2,466,718.94	3,238,364.12	5,705,083.06	999,900.00
Restricted for:				
Debt Service	274,132.56	254,889.97	529,022.53	
Special Purposes	132,583.65	113,700.71	246,284.36	
Unrestricted	(363,847.22)	119,701.59	(244,145.63)	45,455.46
<b>Total Net Position</b>	<b>2,509,587.93</b>	<b>3,726,656.39</b>	<b>6,236,244.32</b>	<b>1,045,355.46</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Net (Expense) Revenue and Change in Net Position

	Program Revenues					Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport Authority	
<u>Functions/Programs</u>									
<u>Primary Government:</u>									
<u>Governmental Activities:</u>									
General Government	274,949.54	54,341.61	1,378.00		(219,229.93)		(219,229.93)		
Public Safety	241,609.00	13,863.70	27,143.11		(200,602.19)		(200,602.19)		
Streets and Public Works	479,674.02	15,241.84	68,552.72	118,339.62	(277,539.84)		(277,539.84)		
Urban and Economic Development	32,158.34	19,531.99			(12,626.35)		(12,626.35)		
Culture and Recreation	78,060.67	44,200.51	361.68		(33,498.48)		(33,498.48)		
Other	25,445.07				(25,445.07)		(25,445.07)		
Interest on Long-Term Debt	27,072.88		77,548.33		50,475.45		50,475.45		
<b>Total Governmental Activities</b>	<b>1,158,969.52</b>	<b>147,179.65</b>	<b>174,983.84</b>	<b>118,339.62</b>	<b>(718,466.41)</b>		<b>(718,466.41)</b>		
<u>Business-Type Activities:</u>									
Water	239,847.99	266,349.21				26,501.22	26,501.22		
Sewer	60,933.28	85,264.12				24,330.84	24,330.84		
Garbage and Landfill	203,421.40	202,715.77				(705.63)	(705.63)		
Water and Sewer Imp. District	191,802.48	159,296.91		381,660.38		349,154.81	349,154.81		
<b>Total Business-Type Activities</b>	<b>696,005.15</b>	<b>713,626.01</b>		<b>381,660.38</b>		<b>399,281.24</b>	<b>399,281.24</b>		
<b>Total Primary Government</b>	<b>1,854,974.67</b>	<b>860,805.66</b>	<b>174,983.84</b>	<b>500,000.00</b>	<b>(718,466.41)</b>	<b>399,281.24</b>	<b>(319,185.17)</b>		
Component Unit:									
Airport Authority	173,426.22	29,479.10		54,923.80					(89,023.32)

<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes	322,140.31			322,140.31
Property taxes; levied for special purposes	25,310.57			25,310.57
City sales taxes	190,501.37			190,501.37
Telecommunication taxes	3,584.20			3,584.20
Cigarette taxes	3,153.18			3,153.18
Oil and gas production taxes	2,175.75			2,175.75
Homestead tax credit	10,526.97			10,526.97
Disabled veterans credit	752.58			752.58
Intergovernmental revenue not restricted to specific programs	73,783.14			73,783.14
Earnings on investments and other revenue	583.70			583.70
Transfers	(45,000.00)			(45,000.00)
				17.22
<b>Total General Revenues and Transfers</b>	<b>687,321.92</b>	<b>(44,416.30)</b>	<b>642,905.62</b>	<b>13,330.05</b>
<b>Change in Net Position</b>	<b>(31,144.49)</b>	<b>354,864.94</b>	<b>323,720.45</b>	<b>(75,676.05)</b>
<b>Net Position - January 1</b>	<b>2,509,587.93</b>	<b>3,726,656.39</b>	<b>6,236,244.32</b>	<b>1,045,355.46</b>
<b>Net Position - December 31</b>	<b>2,478,443.44</b>	<b>4,081,521.33</b>	<b>6,559,964.77</b>	<b>969,679.41</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Net (Expense) Revenue and Change in Net Position

	Program Revenues				Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	299,162.43	47,472.87	11,053.68		(240,635.88)		(240,635.88)	
Public Safety	231,318.02	13,641.28	71,365.98		(146,310.76)		(146,310.76)	
Streets and Public Works	378,431.26	575.92	66,669.77		(311,185.57)		(311,185.57)	
Urban and Economic Development	52,058.43	40,835.63			(11,222.80)		(11,222.80)	
Culture and Recreation	73,386.01	47,970.75	361.68		(25,053.58)		(25,053.58)	
Other	16,986.63				(16,986.63)		(16,986.63)	
Interest on Long-Term Debt	28,611.93		94,408.24		65,796.31		65,796.31	
<b>Total Governmental Activities</b>	<b>1,079,954.71</b>	<b>150,496.45</b>	<b>243,859.35</b>		<b>(685,598.91)</b>		<b>(685,598.91)</b>	
<u>Business-Type Activities:</u>								
Water	237,432.62	249,610.02				12,177.40	12,177.40	
Sewer	96,228.73	79,901.37	2,248.38			(14,078.98)	(14,078.98)	
Garbage and Landfill	211,414.06	202,126.54				(9,287.52)	(9,287.52)	
Water and Sewer Imp. District	149,290.64	157,825.00				8,534.36	8,534.36	
<b>Total Business-Type Activities</b>	<b>694,366.05</b>	<b>689,462.93</b>	<b>2,248.38</b>			<b>(2,654.74)</b>	<b>(2,654.74)</b>	
<b>Total Primary Government</b>	<b>1,774,320.76</b>	<b>839,959.38</b>	<b>246,107.73</b>		<b>(685,598.91)</b>	<b>(2,654.74)</b>	<b>(688,253.65)</b>	
=====								
Component Unit:								
Airport Authority	637,861.98	32,177.47		503,521.13				(102,163.38)
=====								

<u>General Revenues:</u>				
Taxes:				
Property taxes; levied for general purposes	222,404.07		222,404.07	
Property taxes; levied for special purposes	28,792.17		28,792.17	11,466.71
City sales taxes	202,305.53		202,305.53	
Telecommunication taxes	3,584.20		3,584.20	
Cigarette taxes	3,317.19		3,317.19	
Oil and gas production taxes	1,562.11		1,562.11	
Homestead tax credit	8,394.80		8,394.80	
Disabled veterans credit	1,393.88		1,393.88	
Intergovernmental revenue not restricted to specific programs	106,805.70		106,805.70	
Earnings on investments and other revenue	70,050.63	669.92	70,720.55	1,092.33
Transfers	45,000.00	(45,000.00)		
<b>Total General Revenues and Transfers</b>	<b>693,610.28</b>	<b>(44,330.08)</b>	<b>649,280.20</b>	<b>12,559.04</b>
<b>Change in Net Position</b>	<b>8,011.37</b>	<b>(46,984.82)</b>	<b>(38,973.45)</b>	<b>(89,604.34)</b>
<b>Net Position - January 1</b>	<b>2,501,576.56</b>	<b>3,773,641.21</b>	<b>6,275,217.77</b>	<b>1,134,959.80</b>
<b>Net Position - December 31</b>	<b>2,509,587.93</b>	<b>3,726,656.39</b>	<b>6,236,244.32</b>	<b>1,045,355.46</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Major Funds						
	General	Highway Distribution	Sales Tax	Street Improvement District No. 7	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Cash Equivalents			125,044.97	70,652.38	94,589.58	290,286.93
Interfund Receivable				49,034.63		49,034.63
Total Assets	-0-	-0-	125,044.97	119,687.01	94,589.58	339,321.56
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Interfund Payable	8,610.38	40,424.25				49,034.63
<b>Fund Balances:</b>						
Restricted for:						
Infrastructure			61,162.83			61,162.83
Health Care			55,961.70			55,961.70
Culture and Recreation			7,920.44		4,268.18	12,188.62
Emergency Services					16,424.97	16,424.97
Cemetery					2,296.19	2,296.19
Debt Service				119,687.01	71,600.24	191,287.25
Unassigned	(8,610.38)	(40,424.25)				(49,034.63)
Total Fund Balances	(8,610.38)	(40,424.25)	125,044.97	119,687.01	94,589.58	290,286.93
Total Liabilities and Fund Balances	-0-	-0-	125,044.97	119,687.01	94,589.58	339,321.56

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Major Funds						
	General	Highway Distribution	Sales Tax	Street Improvement District No. 7	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Cash Equivalents			99,717.49	71,306.56	112,602.65	283,626.70
Interfund Receivable				123,089.51		123,089.51
<b>Total Assets</b>	-0-	-0-	99,717.49	194,396.07	112,602.65	406,716.21
<hr style="border-top: 1px dashed black;"/>						
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Interfund Payable	67,782.53	55,306.98				123,089.51
<hr style="border-top: 1px solid black;"/>						
<b>Fund Balances:</b>						
Restricted for:						
Public Safety					8,057.69	8,057.69
Infrastructure			43,752.67			43,752.67
Health Care			48,322.59			48,322.59
Culture and Recreation			7,642.23		11,023.32	18,665.55
Emergency Services					8,678.19	8,678.19
Cemetery					5,106.96	5,106.96
Debt Service				194,396.07	79,736.49	274,132.56
Unassigned	(67,782.53)	(55,306.98)				(123,089.51)
<b>Total Fund Balances</b>	(67,782.53)	(55,306.98)	99,717.49	194,396.07	112,602.65	283,626.70
<hr style="border-top: 1px solid black;"/>						
<b>Total Liabilities and Fund Balances</b>	-0-	-0-	99,717.49	194,396.07	112,602.65	406,716.21
<hr style="border-top: 1px dashed black;"/>						

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

CITY OF KENMARE  
Kenmare, 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		290,286.93
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	5,622,421.00	
Less Accumulated Depreciation	(1,819,093.00)	
Net Capital Assets		3,803,328.00
The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.		
Total Deferred Outflows of Resources	161,114.00	
Total Deferred Inflows of Resources	(67,157.00)	
Net Deferred Outflows/Inflows of Resources		93,957.00
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:		
Loans Payable	(89,111.58)	
Special Assessments Bonds Payable	(1,261,084.98)	
Compensated Absences Payable	(3,758.93)	
Net Pension Liability	(355,173.00)	
Total Liabilities		(1,709,128.49)
Total Net Position of Governmental Activities		2,478,443.44

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



CITY OF KENMARE  
Kenmare, 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		283,626.70
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	5,615,103.00	
Less Accumulated Depreciation	(1,590,565.00)	
Net Capital Assets	4,024,538.00	4,024,538.00
<p>The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.</p>		
Total Deferred Outflows of Resources	54,238.00	
Total Deferred Inflows of Resources	(104,660.00)	
Net Deferred Outflows/Inflows of Resources	(50,422.00)	(50,422.00)
<p>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, 2016 are:</p>		
Loans Payable	(178,223.17)	
Special Assessments Bonds Payable	(1,379,595.89)	
Compensated Absences Payable	(4,407.71)	
Net Pension Liability	(185,928.00)	
Total Liabilities	(1,748,154.77)	(1,748,154.77)
Total Net Position of Governmental Activities		2,509,587.93

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

CITY OF KENMARE  
Kenmare, 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

	General	Highway Distribution	Sales Tax	Street Improvement District No. 7	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	325,724.51		190,501.37		25,310.57	541,536.45
Special Assessments		4,643.43		57,673.48	15,231.42	77,548.33
Licenses, Permits and Fees	60,710.12					60,710.12
Intergovernmental	92,646.69	68,552.72	118,339.62		25,294.72	304,833.75
Charges for Services		15,241.84				15,241.84
Fines and Forfeits					13,863.70	13,863.70
Miscellaneous	41,302.88	1,333.00	476.28	160.57	25,818.11	69,090.84
<b>Total Revenues</b>	<b>520,384.20</b>	<b>89,770.99</b>	<b>309,317.27</b>	<b>57,834.05</b>	<b>105,518.52</b>	<b>1,082,825.03</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	243,344.32					243,344.32
Public Safety	183,349.59				40,579.41	223,929.00
Streets and Public Works	28,510.55	199,888.26	35,750.20		255.01	264,404.02
Urban and Economic Development					32,158.34	32,158.34
Culture and Recreation	70,411.27				7,649.40	78,060.67
Other				10,408.11	15,036.96	25,445.07
Capital Outlay			19,128.00			19,128.00
<b>Debt Service:</b>						
Principal			89,111.59	100,000.00	18,510.91	207,622.50
Interest				22,135.00	4,937.88	27,072.88
<b>Total Expenditures</b>	<b>525,615.73</b>	<b>199,888.26</b>	<b>143,989.79</b>	<b>132,543.11</b>	<b>119,127.91</b>	<b>1,121,164.80</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(5,231.53)</b>	<b>(110,117.27)</b>	<b>165,327.48</b>	<b>(74,709.06)</b>	<b>(13,609.39)</b>	<b>(38,339.77)</b>
<b>Other Financing Sources (Uses):</b>						
Transfers In	64,403.68	125,000.00				189,403.68
Transfers Out			(140,000.00)		(4,403.68)	(144,403.68)
<b>Total Other Financing Sources (Uses)</b>	<b>64,403.68</b>	<b>125,000.00</b>	<b>(140,000.00)</b>		<b>(4,403.68)</b>	<b>45,000.00</b>
<b>Net Change in Fund Balances</b>	<b>59,172.15</b>	<b>14,882.73</b>	<b>25,327.48</b>	<b>(74,709.06)</b>	<b>(18,013.07)</b>	<b>6,660.23</b>
<b>Fund Balance - January 1</b>	<b>(67,782.53)</b>	<b>(55,306.98)</b>	<b>99,717.49</b>	<b>194,396.07</b>	<b>112,602.65</b>	<b>283,626.70</b>
<b>Fund Balance - December 31</b>	<b>(8,610.38)</b>	<b>(40,424.25)</b>	<b>125,044.97</b>	<b>119,687.01</b>	<b>94,589.58</b>	<b>290,286.93</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Major Funds

	General	Highway Distribution	Sales Tax	Street Improvement District No. 7	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
Taxes	225,988.27		202,305.53		28,792.17	457,085.97
Special Assessments	24.35	19,190.23		57,673.48	17,544.53	94,432.59
Licenses, Permits and Fees	64,009.12					64,009.12
Intergovernmental	121,704.73	66,669.77			73,043.61	261,418.11
Charges for Services		551.57				551.57
Fines and Forfeits					13,641.28	13,641.28
Miscellaneous	52,019.67	5,625.83	243.74	12,722.93	81,215.27	151,827.44
<b>Total Revenues</b>	<b>463,746.14</b>	<b>92,037.40</b>	<b>202,549.27</b>	<b>70,396.41</b>	<b>214,236.86</b>	<b>1,042,966.08</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government	299,326.27					299,326.27
Public Safety	169,215.19				44,420.83	213,636.02
Streets and Public Works	6,808.73	102,363.60	51,385.58		7,583.35	168,141.26
Urban and Economic Development					52,058.43	52,058.43
Culture and Recreation	73,303.25				82.76	73,386.01
Other	4,790.66			4,748.00	7,447.97	16,986.63
Capital Outlay					31,573.00	31,573.00
<b>Debt Service:</b>						
Principal			178,223.18	100,000.00	17,971.86	296,195.04
Interest				23,135.00	5,476.93	28,611.93
<b>Total Expenditures</b>	<b>553,444.10</b>	<b>102,363.60</b>	<b>229,608.76</b>	<b>127,883.00</b>	<b>166,615.13</b>	<b>1,179,914.59</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(89,697.96)</b>	<b>(10,326.20)</b>	<b>(27,059.49)</b>	<b>(57,486.59)</b>	<b>47,621.73</b>	<b>(136,948.51)</b>
<b>Other Financing Sources (Uses):</b>						
Transfers In	102,941.95				15,894.75	118,836.70
Transfers Out	(15,894.75)		(15,000.00)		(42,941.95)	(73,836.70)
<b>Total Other Financing Sources (Uses)</b>	<b>87,047.20</b>		<b>(15,000.00)</b>		<b>(27,047.20)</b>	<b>45,000.00</b>
<b>Net Change in Fund Balances</b>	<b>(2,650.76)</b>	<b>(10,326.20)</b>	<b>(42,059.49)</b>	<b>(57,486.59)</b>	<b>20,574.53</b>	<b>(91,948.51)</b>
<b>Fund Balance - January 1</b>	<b>(65,131.77)</b>	<b>(44,980.78)</b>	<b>141,776.98</b>	<b>251,882.66</b>	<b>92,028.12</b>	<b>375,575.21</b>
<b>Fund Balance - December 31</b>	<b>(67,782.53)</b>	<b>(55,306.98)</b>	<b>99,717.49</b>	<b>194,396.07</b>	<b>112,602.65</b>	<b>283,626.70</b>

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

CITY OF KENMARE  
Kenmare, 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 6,660.23

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	19,128.00	
Current Year Depreciation Expense	(240,338.00)	(221,210.00)

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	207,622.50	207,622.50

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 Decrease in Compensated Absences	648.78	
Net Increase to Pension Expense	(24,866.00)	(24,217.22)

Change in Net Position of Governmental Activities		(31,144.49)
		=====

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

CITY OF KENMARE  
Kenmare, 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 (91,948.51)

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 depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	31,573.00	
Current Year Depreciation Expense	(235,360.00)	(203,787.00)

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	296,195.04	296,195.04

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 Decrease in Compensated Absences	2,282.84	
Net Decrease to Pension Expense	5,269.00	7,551.84

Change in Net Position of Governmental Activities 8,011.37  
=====

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Major Enterprise Funds

	Water	Sewer	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents	27,476.59	15,675.33	15,880.65	306,419.60	135,440.16	500,892.33
<b>Noncurrent Assets:</b>						
Capital Assets (net of accumulated depr):						
Land			20,000.00			20,000.00
Buildings and Infrastructure	999,429.00			3,853,801.00		4,853,230.00
Machinery and Vehicles	4,999.00					4,999.00
<b>Total Noncurrent Assets</b>	<b>1,004,428.00</b>		<b>20,000.00</b>	<b>3,853,801.00</b>		<b>4,878,229.00</b>
<b>Total Assets</b>	<b>1,031,904.59</b>	<b>15,675.33</b>	<b>35,880.65</b>	<b>4,160,220.60</b>	<b>135,440.16</b>	<b>5,379,121.33</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Revenue Bonds Payable	60,000.00			96,700.00		156,700.00
<b>Noncurrent Liabilities:</b>						
Revenue Bonds Payable	840,000.00			300,900.00		1,140,900.00
<b>Total Liabilities</b>	<b>900,000.00</b>			<b>397,600.00</b>		<b>1,297,600.00</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	104,428.00		20,000.00	3,456,201.00		3,580,629.00
Restricted for:						
Debt Service				306,419.60		306,419.60
Landfill Maintenance					7,325.11	7,325.11
Water Deposits					8,023.81	8,023.81
Water Maintenance					120,091.24	120,091.24
Unrestricted	27,476.59	15,675.33	15,880.65			59,032.57
<b>Total Net Position</b>	<b>131,904.59</b>	<b>15,675.33</b>	<b>35,880.65</b>	<b>3,762,620.60</b>	<b>135,440.16</b>	<b>4,081,521.33</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

Major Enterprise Funds

	Water	Sewer	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and Cash Equivalents	95,790.20		23,911.39	254,889.97	113,700.71	488,292.27
Interfund Receivable	8,655.51					8,655.51
<b>Total Current Assets</b>	<b>104,445.71</b>		<b>23,911.39</b>	<b>254,889.97</b>	<b>113,700.71</b>	<b>496,947.78</b>
<b>Noncurrent Assets:</b>						
Capital Assets (net of accumulated depr):						
Land			20,000.00			20,000.00
Buildings and Infrastructure	1,013,706.00			3,986,637.00		5,000,343.00
Machinery and Vehicles	6,666.00					6,666.00
<b>Total Noncurrent Assets</b>	<b>1,020,372.00</b>		<b>20,000.00</b>	<b>3,986,637.00</b>		<b>5,027,009.00</b>
<b>Total Assets</b>	<b>1,124,817.71</b>	<b>-0-</b>	<b>43,911.39</b>	<b>4,241,526.97</b>	<b>113,700.71</b>	<b>5,523,956.78</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Interfund Payable		8,655.51				8,655.51
Revenue Bonds Payable	60,000.00			431,044.88		491,044.88
<b>Total Current Liabilities</b>	<b>60,000.00</b>	<b>8,655.51</b>		<b>431,044.88</b>		<b>499,700.39</b>
<b>Noncurrent Liabilities:</b>						
Revenue Bonds Payable	900,000.00			397,600.00		1,297,600.00
<b>Total Liabilities</b>	<b>960,000.00</b>	<b>8,655.51</b>		<b>828,644.88</b>		<b>1,797,300.39</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	60,372.00		20,000.00	3,157,992.12		3,238,364.12
Restricted for:						
Debt Service				254,889.97		254,889.97
Water Deposits					7,370.31	7,370.31
Water Maintenance					106,330.40	106,330.40
Unrestricted	104,445.71	(8,655.51)	23,911.39		0.00	119,701.59
<b>Total Net Position</b>	<b>164,817.71</b>	<b>(8,655.51)</b>	<b>43,911.39</b>	<b>3,412,882.09</b>	<b>113,700.71</b>	<b>3,726,656.39</b>

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

CITY OF KENMARE  
Kenmare, 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

	Water	Sewer	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
<b>Operating Revenues:</b>						
<b>Charges for Services:</b>						
Water Sales	227,776.34			103,195.25		330,971.59
Bulk Water Sales	20,191.95					20,191.95
Water Maintenance Fee					13,760.84	13,760.84
Sewer Charges		84,854.12		56,101.66		140,955.78
Garbage Charges			180,599.66			180,599.66
Landfill Maintenance Fee			40.00		7,325.11	7,365.11
Landfill Permits			14,721.00			14,721.00
Meter Sales	421.11					421.11
Water Deposits					1,478.50	1,478.50
Other Fees	2,720.47	410.00	30.00			3,160.47
<b>Total Operating Revenues</b>	<b>251,109.87</b>	<b>85,264.12</b>	<b>195,390.66</b>	<b>159,296.91</b>	<b>22,564.45</b>	<b>713,626.01</b>
<b>Operating Expenses:</b>						
Salaries	37,470.50	26,363.13	27,188.34			91,021.97
Health Insurance	2,652.48	2,652.48				5,304.96
Retirement	3,850.93					3,850.93
NAWS Water	96,071.27					96,071.27
Utilities	4,653.09	19,698.64	875.08			25,226.81
Telephone	1,981.62	122.35				2,103.97
Maintenance and Supplies	37,995.35	12,096.68	21,220.37			71,312.40
Refunds	15,103.75				825.00	15,928.75
Contracted Services			139,215.55			139,215.55
Engineering Fees				28,780.50		28,780.50
Recycling			14,082.06			14,082.06
Miscellaneous			840.00			840.00
Depreciation	15,944.00			132,836.00		148,780.00
<b>Total Operating Expenses</b>	<b>215,722.99</b>	<b>60,933.28</b>	<b>203,421.40</b>	<b>161,616.50</b>	<b>825.00</b>	<b>642,519.17</b>
<b>Operating Income (Loss)</b>	<b>35,386.88</b>	<b>24,330.84</b>	<b>(8,030.74)</b>	<b>(2,319.59)</b>	<b>21,739.45</b>	<b>71,106.84</b>
<b>Non-Operating Revenues (Expenses):</b>						
Energy Impact Grants				381,660.38		381,660.38
Interest Income				583.70		583.70
Debt Service - Interest Expense	(23,300.00)			(30,185.98)		(53,485.98)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(23,300.00)</b>			<b>352,058.10</b>		<b>328,758.10</b>
<b>Income (Loss) Before Transfers</b>	<b>12,086.88</b>	<b>24,330.84</b>	<b>(8,030.74)</b>	<b>349,738.51</b>	<b>21,739.45</b>	<b>399,864.94</b>
Transfers Out	(45,000.00)					(45,000.00)
<b>Change in Net Position</b>	<b>(32,913.12)</b>	<b>24,330.84</b>	<b>(8,030.74)</b>	<b>349,738.51</b>	<b>21,739.45</b>	<b>354,864.94</b>
<b>Net Position - January 1</b>	<b>164,817.71</b>	<b>(8,655.51)</b>	<b>43,911.39</b>	<b>3,412,882.09</b>	<b>113,700.71</b>	<b>3,726,656.39</b>
<b>Net Position - December 31</b>	<b>131,904.59</b>	<b>15,675.33</b>	<b>35,880.65</b>	<b>3,762,620.60</b>	<b>135,440.16</b>	<b>4,081,521.33</b>

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



CITY OF KENMARE  
Kenmare, North Dakota

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

Major Enterprise Funds

	Water	Sewer	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
<b>Operating Revenues:</b>						
<b>Charges for Services:</b>						
Water Sales	225,457.74			104,988.70		330,446.44
Bulk Water Sales	8.00					8.00
Water Maintenance Fee					13,901.53	13,901.53
Sewer Charges		79,271.37		52,836.30		132,107.67
Garbage Charges			189,238.54			189,238.54
Landfill Permits			12,888.00			12,888.00
Meter Sales	1,660.00					1,660.00
Water Deposits					2,609.50	2,609.50
Other Fees	5,973.25	630.00				6,603.25
<b>Total Operating Revenues</b>	<b>233,098.99</b>	<b>79,901.37</b>	<b>202,126.54</b>	<b>157,825.00</b>	<b>16,511.03</b>	<b>689,462.93</b>
<b>Operating Expenses:</b>						
Salaries	54,620.24	39,890.00	17,754.50			112,264.74
Health Insurance	5,970.68	5,677.04				11,647.72
Workforce Safety Insurance	589.98	589.99				1,179.97
Retirement	1,762.37					1,762.37
NAWS Water	89,555.18					89,555.18
Utilities	6,746.64	20,010.20	623.59			27,380.43
Telephone		557.40				557.40
Maintenance and Supplies	36,261.34	28,050.34	35,604.86			99,916.54
Refunds					1,282.19	1,282.19
Contracted Services			139,027.32	1,033.40		140,060.72
Recycling			18,403.79			18,403.79
Miscellaneous		1,453.76				1,453.76
Depreciation	15,944.00			132,836.00		148,780.00
<b>Total Operating Expenses</b>	<b>211,450.43</b>	<b>96,228.73</b>	<b>211,414.06</b>	<b>133,869.40</b>	<b>1,282.19</b>	<b>654,244.81</b>
<b>Operating Income (Loss)</b>	<b>21,648.56</b>	<b>(16,327.36)</b>	<b>(9,287.52)</b>	<b>23,955.60</b>	<b>15,228.84</b>	<b>35,218.12</b>
<b>Non-Operating Revenues (Expenses):</b>						
FEMA Funds		2,248.38				2,248.38
Interest Income				497.12		497.12
Miscellaneous Revenue	172.80					172.80
Debt Service - Interest Expense	(24,700.00)			(15,421.24)		(40,121.24)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(24,527.20)</b>	<b>2,248.38</b>		<b>(14,924.12)</b>		<b>(37,202.94)</b>
<b>Income (Loss) Before Transfers</b>	<b>(2,878.64)</b>	<b>(14,078.98)</b>	<b>(9,287.52)</b>	<b>9,031.48</b>	<b>15,228.84</b>	<b>(1,984.82)</b>
<b>Transfers Out</b>	<b>(45,000.00)</b>					<b>(45,000.00)</b>
<b>Change in Net Position</b>	<b>(47,878.64)</b>	<b>(14,078.98)</b>	<b>(9,287.52)</b>	<b>9,031.48</b>	<b>15,228.84</b>	<b>(46,984.82)</b>
<b>Net Position - January 1</b>	<b>212,696.35</b>	<b>5,423.47</b>	<b>53,198.91</b>	<b>3,403,850.61</b>	<b>98,471.87</b>	<b>3,773,641.21</b>
<b>Net Position - December 31</b>	<b>164,817.71</b>	<b>(8,655.51)</b>	<b>43,911.39</b>	<b>3,412,882.09</b>	<b>113,700.71</b>	<b>3,726,656.39</b>

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

CITY OF KENMARE  
Kenmare, 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	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>						
Receipts from customers	251,109.87	85,264.12	195,390.66	159,296.91	22,564.45	713,626.01
Payments to suppliers	(155,805.08)	(31,917.67)	(176,233.06)	(28,780.50)	(825.00)	(393,561.31)
Payments to employees	(37,470.50)	(26,363.13)	(27,188.34)			(91,021.97)
Payments on behalf of employees	(6,503.41)	(2,652.48)				(9,155.89)
<b>Net cash provided (used) by operating activities</b>	<b>51,330.88</b>	<b>24,330.84</b>	<b>(8,030.74)</b>	<b>130,516.41</b>	<b>21,739.45</b>	<b>219,886.84</b>
<u>Cash flows from noncapital financing activities:</u>						
Transfers out	(45,000.00)					(45,000.00)
Interfund loan transactions	8,655.51	(8,655.51)				
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(36,344.49)</b>	<b>(8,655.51)</b>				<b>(45,000.00)</b>
<u>Cash flows from capital and related financing activities:</u>						
Energy impact grants				381,660.38		381,660.38
Principal payments	(60,000.00)			(431,044.88)		(491,044.88)
Interest payments	(23,300.00)			(30,185.98)		(53,485.98)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(83,300.00)</b>			<b>(79,570.48)</b>		<b>(162,870.48)</b>
<u>Cash flows from investing activities:</u>						
Interest income				583.70		583.70
<b>Net increase in cash and cash equivalents</b>	<b>(68,313.61)</b>	<b>15,675.33</b>	<b>(8,030.74)</b>	<b>51,529.63</b>	<b>21,739.45</b>	<b>12,600.06</b>
Cash and cash equivalents, January 1	95,790.20	-0-	23,911.39	254,889.97	113,700.71	488,292.27
Cash and cash equivalents, December 31	27,476.59	15,675.33	15,880.65	306,419.60	135,440.16	500,892.33
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>						
Operating income (loss)	35,386.88	24,330.84	(8,030.74)	(2,319.59)	21,739.45	71,106.84
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>						
Depreciation expense	15,944.00			132,836.00		148,780.00
<b>Net cash provided (used) by operating activities</b>	<b>51,330.88</b>	<b>24,330.84</b>	<b>(8,030.74)</b>	<b>130,516.41</b>	<b>21,739.45</b>	<b>219,886.84</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

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

	Major Enterprise Funds				Other Enterprise Funds	Total Enterprise Funds
	Water	Sewer	Garbage & Landfill	Water and Sewer Improvement District 1993-1		
<u>Cash flows from operating activities:</u>						
Receipts from customers	233,098.99	79,901.37	202,126.54	157,825.00	16,511.03	689,462.93
Payments to suppliers	(132,563.16)	(50,071.70)	(193,659.56)	(1,033.40)	(1,282.19)	(378,610.01)
Payments to employees	(54,620.24)	(39,890.00)	(17,754.50)			(112,264.74)
Payments on behalf of employees	(8,323.03)	(6,267.03)				(14,590.06)
<b>Net cash provided (used) by operating activities</b>	<b>37,592.56</b>	<b>(16,327.36)</b>	<b>(9,287.52)</b>	<b>156,791.60</b>	<b>15,228.84</b>	<b>183,998.12</b>
<u>Cash flows from noncapital financing activities:</u>						
Miscellaneous receipts	172.80					172.80
Transfers out	(45,000.00)					(45,000.00)
Interfund loan transaction	(8,655.51)	8,655.51				
<b>Net cash provided (used) by noncapital financing activities</b>	<b>(53,482.71)</b>	<b>8,655.51</b>				<b>(44,827.20)</b>
<u>Cash flows from capital and related financing activities:</u>						
FEMA funds		2,248.38				2,248.38
Proceeds from bank loan				22,408.90		22,408.90
Lagoon project				(22,408.00)		(22,408.00)
Principal payments	(60,000.00)			(93,700.00)		(153,700.00)
Interest payments	(24,700.00)			(15,421.24)		(40,121.24)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(84,700.00)</b>	<b>2,248.38</b>		<b>(109,120.34)</b>		<b>(191,571.96)</b>
<u>Cash flows from investing activities:</u>						
Interest income				497.12		497.12
<b>Net increase in cash and cash equivalents</b>	<b>(100,590.15)</b>	<b>(5,423.47)</b>	<b>(9,287.52)</b>	<b>48,168.38</b>	<b>15,228.84</b>	<b>(51,903.92)</b>
Cash and cash equivalents, January 1	196,380.35	5,423.47	33,198.91	206,721.59	98,471.87	540,196.19
Cash and cash equivalents, December 31	95,790.20	-0-	23,911.39	254,889.97	113,700.71	488,292.27
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>						
Operating income (loss)	21,648.56	(16,327.36)	(9,287.52)	23,955.60	15,228.84	35,218.12
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>						
Depreciation expense	15,944.00			132,836.00		148,780.00
<b>Net cash provided (used) by operating activities</b>	<b>37,592.56</b>	<b>(16,327.36)</b>	<b>(9,287.52)</b>	<b>156,791.60</b>	<b>15,228.84</b>	<b>183,998.12</b>

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

CITY OF KENMARE  
Kenmare, North Dakota

Notes to the Financial Statements  
December 31, 2017 and 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kenmare 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, the component unit discussed below is included within the city's reporting entity because of the significance of its operational or financial relationship with the city.

Discretely Presented Component Unit: The component unit's column in the basic financial statements include the financial data of the city's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the city.

Kenmare Airport Authority: The Kenmare airport authority's governing board is appointed by the city's governing board. The city's governing board has the authority to disapprove, amend, or approve the airport authority budget. The airport authority has the authority to issue its own debt.

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 Kenmare and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the city. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees 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.

*Highway Distribution.* This fund accounts for the state highway tax distribution used for street repairs and maintenance.

*Sales Tax.* This fund accounts for the city's sales tax collections, which are used for economic development, infrastructure improvements and community health-care needs.

*Street Improvement District No. 7.* This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds, Series 2012.

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 sewage collection system.

*Garbage and Landfill.* This fund accounts for the activities of the city's garbage collection system and landfill.

*Water and Sewer Improvement District 1993-1.* This fund accounts for the accumulation of funds to service the principal and interest payments of the city's revenue bonds. The city collects water and sewer charges to repay this debt.

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 other governments.

### 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 and Cash Equivalents

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.

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 75 years
Machinery and Vehicles	6 to 20 years

F. Compensated Absences

Vested or accumulated annual leave is reported in the government-wide statement of net position. Compensation for unused annual leave will be granted to all full-time employees upon termination of employment with the city. The city's personnel policy allows employees to carry forward unused annual leave not to exceed 40 hours at the employee's current pay rate.

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. Pension

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS); additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## I. 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.

#### J. 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.

#### K. 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 \$791,179 and the bank balance was \$892,925. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$642,925 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 \$771,919 and the bank balance was \$808,620. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$558,620 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.

#### 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 RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the years ended December 31, 2017 and 2016 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
<u>December 31, 2017</u>		
Street Impr. District No. 7	49,034.63	
General Fund		8,610.38
Highway Distribution		40,424.25
<u>December 31, 2016</u>		
Street Impr. District No. 7	123,089.51	
General Fund		67,782.53
Highway Distribution		55,306.98
Water	8,655.51	
Sewer		8,655.51

Note 5 CAPITAL ASSETS

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

	<u>2017</u>			
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	5,088,671			5,088,671
Machinery and Vehicles	526,432	45,128	37,810	533,750
<b>Total</b>	<u>5,615,103</u>	<u>45,128</u>	<u>37,810</u>	<u>5,622,421</u>
<i>Less accumulated   depreciation for:</i>				
Buildings and Infrastructure	1,355,110	186,746		1,541,856
Machinery and Vehicles	235,455	53,592	11,810	277,237
<b>Total</b>	<u>1,590,565</u>	<u>240,338</u>	<u>11,810</u>	<u>1,819,093</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>4,024,538</u>	<u>(195,210)</u>	<u>26,000</u>	<u>3,803,328</u>

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	5,088,671			5,088,671
Machinery and Vehicles	494,859	31,573		526,432
<b>Total</b>	<u>5,583,530</u>	<u>31,573</u>		<u>5,615,103</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	1,168,364	186,746		1,355,110
Machinery and Vehicles	186,841	48,614		235,455
<b>Total</b>	<u>1,355,205</u>	<u>235,360</u>		<u>1,590,565</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>4,228,325</u>	<u>(203,787)</u>	<u>-0-</u>	<u>4,024,538</u>

	<u>2017</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets not</i>				
<i>being depreciated:</i>				
Land	20,000			20,000
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	6,382,126			6,382,126
Machinery and Vehicles	16,500			16,500
<b>Total</b>	<u>6,398,626</u>			<u>6,398,626</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	1,381,783	147,113		1,528,896
Machinery and Vehicles	9,834	1,667		11,501
<b>Total</b>	<u>1,391,617</u>	<u>148,780</u>		<u>1,540,397</u>
<b>Total capital assets</b>				
<b>being depreciated, net</b>	<u>5,007,009</u>	<u>(148,780)</u>		<u>4,858,229</u>
<b>Business-type Activities</b>				
<b>Capital Assets, Net</b>	<u>5,027,009</u>	<u>(148,780)</u>	<u>-0-</u>	<u>4,878,229</u>

2016

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	20,000			20,000
Const. in Progress	2,483,000	22,408	2,505,408	
<b>Total</b>	<u>2,503,000</u>	<u>22,408</u>	<u>2,505,408</u>	<u>20,000</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,876,718	2,505,408		6,382,126
Machinery and Vehicles	16,500			16,500
<b>Total</b>	<u>3,893,218</u>	<u>2,505,408</u>		<u>6,398,626</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,234,670	147,113		1,381,783
Machinery and Vehicles	8,167	1,667		9,834
<b>Total</b>	<u>1,242,837</u>	<u>148,780</u>		<u>1,391,617</u>
<b>Total capital assets being depreciated, net</b>	<u>2,650,381</u>	<u>2,356,628</u>		<u>5,007,009</u>
<b>Business-type Activities Capital Assets, Net</b>	<u>5,153,381</u>	<u>2,379,036</u>	<u>2,505,408</u>	<u>5,027,009</u>
	=====	=====	=====	=====

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

	<u>2017</u>	<u>2016</u>
<b><u>Governmental Activities:</u></b>		
General Government	7,388	7,388
Public Safety	17,680	17,682
Streets and Public Works	215,270	210,290
<b>Total</b>	<u>240,338</u>	<u>235,360</u>
	=====	=====
<b><u>Business-type Activities:</u></b>		
Water	15,944	15,944
W&S Improv. Dist. 1993-1	132,836	132,836
<b>Total</b>	<u>148,780</u>	<u>148,780</u>
	=====	=====

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

Airport Authority

	<u>2017</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Discretely Presented:</b>				
<b>Component Unit:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	1,175,192			1,175,192
Machinery and Vehicles	15,200			15,200
<b>Total</b>	<u>1,190,392</u>			<u>1,190,392</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	156,692	78,346		235,038
Machinery and Vehicles	3,800	1,900		5,700
<b>Total</b>	<u>160,492</u>	<u>80,246</u>		<u>240,738</u>
<b>Discretely Presented</b>				
<b>Component Unit, Net</b>	<u>1,029,900</u>	<u>(80,246)</u>	<u>-0-</u>	<u>949,654</u>

	<u>2016</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Discretely Presented:</b>				
<b>Component Unit:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	1,175,192			1,175,192
Machinery and Vehicles	15,200			15,200
<b>Total</b>	<u>1,190,392</u>			<u>1,190,392</u>
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	78,346	78,346		156,692
Machinery and Vehicles	1,900	1,900		3,800
<b>Total</b>	<u>80,246</u>	<u>80,246</u>		<u>160,492</u>
<b>Discretely Presented</b>				
<b>Component Unit, Net</b>	<u>1,110,146</u>	<u>(80,246)</u>	<u>-0-</u>	<u>1,029,900</u>

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

	<u>2017</u>	<u>2016</u>
Authority Airport	80,246	80,246

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2017 and 2016, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>2017</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loans Payable	178,223		89,111	89,112	
Special Assmt. Bonds	1,379,596		118,511	1,261,085	118,781
<b>Total</b>	<b>1,557,819</b>	<b>-0-</b>	<b>207,622</b>	<b>1,350,197</b>	<b>118,781</b>

	<u>2016</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loans Payable	356,446		178,223	178,223	
Special Assmt. Bonds	1,497,568		117,972	1,379,596	118,511
<b>Total</b>	<b>1,854,014</b>	<b>-0-</b>	<b>296,195</b>	<b>1,557,819</b>	<b>118,511</b>

Business-type Activities

	<u>2017</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds	1,788,645	-0-	491,045	1,297,600	156,700

	<u>2016</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds	1,919,936	22,409	153,700	1,788,645	491,045

Airport Authority

	<u>2017</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loan Payable	30,000	-0-	30,000	-0-	-0-

	<u>2016</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loan Payable	5,000	35,000	10,000	30,000	30,000

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

Governmental Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2017, is as follows:

Loans Payable. The city has entered into the following loan agreement to provide funds for the city's share of the 6th Street Improvement project. The loan payable at December 31, 2017 is as follows:

\$773,096.35 loan through Ward County due in a final installment of \$89,111.59 on January 1, 2019; interest is at 0%.	89,111.58
	=====

The annual requirements to amortize the outstanding loan payable is as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>
2019	89,111.58
	=====

Special Assessment Debt. The city has issued special assessment bonds to provide funds for the construction and/or improvement of streets. Special assessment bonds outstanding at December 31, 2017, are as follows:

\$1,600,000.00 Refunding Improvement Bonds, Series 2012, due in annual installments of \$100,000.00 to \$125,000.00 through May 1, 2027; interest is at 1% to 2.4%.	1,115,000.00
---	--------------

\$200,000.00 State Bank of Kenmare Loan, (Street Improvement District No. 8) due in annual installments of \$23,448.79 through September 22, 2024; interest is at 3%.	146,084.98
---	------------

Total Special Assessment Bonds Payable	1,261,084.98
	=====

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	118,781.28	25,352.51
2019	124,576.73	23,269.56
2020	125,172.17	21,099.12
2021	125,785.73	18,910.56
2022	131,417.94	16,390.85
2023-2027	635,351.13	37,417.54
Total	1,261,084.98	142,440.14
	=====	=====



Business-type Activities (Proprietary Funds):

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:

\$598,300.00 Bank of North Dakota Loan (Water and Sewer Improvement District 1993-1) due in annual installments of \$20,700.00 through September 20, 2024 with a final payment of \$18,700.00 due on September 25, 2025; interest is at 3%.	163,600.00
\$728,000.00 Refunding Improvement Bonds, Series 2010A due in annual installments of \$76,000.00 to \$80,000.00 through October 1, 2020; interest is at 2.5%.	234,000.00
\$403,579 Water Revenue Bonds of 2010 due in annual installments of \$10,000.00 to \$25,000.00 through September 1, 2029; interest is at .5%.	255,000.00
\$892,039 Water Revenue Bonds of 2011 due in annual installments of \$40,000.00 to \$60,000.00 through September 1, 2030; interest is at 2.5%.	645,000.00
<b>Total Revenue Bonds Payable</b>	<u>1,297,600.00</u> =====

The annual requirements to amortize the outstanding revenue bonds payable are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	156,700.00	28,158.00
2019	163,700.00	24,537.00
2020	165,700.00	20,741.00
2021	85,700.00	16,895.00
2022	85,700.00	15,049.00
2023-2027	440,100.00	46,771.00
2028-2030	200,000.00	8,350.00
<b>Total</b>	<u>1,297,600.00</u> =====	<u>160,501.00</u> =====

Note 7 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2017</u>		
General Fund	45,000.00	
Water		45,000.00
General Fund	15,000.00	
Highway Distribution	125,000.00	
Sales Tax		140,000.00
To subsidize expenditures.		
General Fund	4,403.68	
Police Department		4,403.68
To close funds.		
<u>December 31, 2016</u>		
General Fund	35,173.42	
Gaming Fund		421.36
Social Security		9,003.37
City Forestry		14,207.80
Planning Commission		10,155.46
Advertising		1,385.43
Recreation	226.01	
Memorial Hall	15,668.74	
General Fund		15,894.75
To close funds.		
General Fund	7,768.53	
Police Department		7,768.53
To reimburse prior years expenditures.		
General Fund	60,000.00	
Sales Tax		15,000.00
Water		45,000.00
To subsidize expenditures.		

Note 8 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31:

	<u>2017</u>	<u>2016</u>
General Fund	(8,610.38)	(67,782.53)
<u>Special Revenue Fund</u>		
Highway Distribution	(40,424.25)	(55,306.98)
<u>Enterprise Fund</u>		
Sewer		(8,655.51)

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

Note 9 RISK MANAGEMENT

The City of Kenmare 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 \$2,000,000 per occurrence for general liability and automobile; and \$401,485 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 \$1,373,000 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

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by active membership of the NDPERS system; and one member elected by the retired public employees.

#### **Pension Benefits**

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

#### **Death and Disability Benefits**

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

#### **Refunds of Member Account Balance**

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service -  
Greater of one percent of monthly salary or \$25
- 13 to 25 months of service -  
Greater of two percent of monthly salary or \$25
- 25 to 36 months of service -  
Greater of three percent of monthly salary or \$25
- Longer than 36 months of service -  
Greater of four percent of monthly salary or \$25

**Pension Liabilities, Pension Expense; and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2017, the City of Kenmare reported a liability of \$355,173 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016 the city's proportion was .036443 percent, which was an increase of .0091 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2017 the city recognized pension expense of \$46,799. At December 31, 2017 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	-----	-----
Differences between expected and actual experience	5,335	3,289
Changes in assumptions	32,742	17,645
Net difference between projected and actual earnings on pension plan investments	49,552	
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,758	46,223
City contributions subsequent to the measurement date (see below)	18,727	
Total	<u>161,114</u> =====	<u>67,157</u> =====

\$18,727 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30: -----	
2018	11,678
2019	11,678
2020	22,488
2021	14,529
2022	14,857
Thereafter	0

**Actuarial assumptions.** The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses.
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Equity Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount rate.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

**Sensitivity of the city's proportionate share of the net pension liability to changes in the discount rate.** The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
The city's proportionate share of the net pension liability	503,805	355,173	229,942

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

CITY OF KENMARE  
Kenmare, 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	338,292.13	338,292.13	325,724.51	(12,567.62)
Licenses, Permits and Fees	55,500.00	55,500.00	60,710.12	5,210.12
Intergovernmental	92,325.00	92,325.00	92,646.69	321.69
Miscellaneous	50,500.00	50,500.00	41,302.88	(9,197.12)
<b>Total Revenues</b>	<b>536,617.13</b>	<b>536,617.13</b>	<b>520,384.20</b>	<b>(16,232.93)</b>
<u>Expenditures:</u>				
Current:				
General Government	315,610.00	315,610.00	243,344.32	72,265.68
Public Safety	181,300.00	181,300.00	183,349.59	(2,049.59)
Street and Public Works	8,000.00	8,000.00	28,510.55	(20,510.55)
Culture and Recreation	66,900.00	66,900.00	70,411.27	(3,511.27)
Conservation of Natural Resources	5,000.00	5,000.00		5,000.00
Other	8,000.00	8,000.00		8,000.00
<b>Total Expenditures</b>	<b>584,810.00</b>	<b>584,810.00</b>	<b>525,615.73</b>	<b>59,194.27</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(48,192.87)</b>	<b>(48,192.87)</b>	<b>(5,231.53)</b>	<b>42,961.34</b>
<u>Other Financing Sources:</u>				
Transfers In	60,000.00	60,000.00	64,403.68	4,403.68
<b>Net Change in Fund Balances</b>	<b>11,807.13</b>	<b>11,807.13</b>	<b>59,172.15</b>	<b>47,365.02</b>
<b>Fund Balance - January 1</b>	<b>(67,782.53)</b>	<b>(67,782.53)</b>	<b>(67,782.53)</b>	
<b>Fund Balance - December 31</b>	<b>(55,975.40)</b>	<b>(55,975.40)</b>	<b>(8,610.38)</b>	<b>47,365.02</b>



CITY OF KENMARE  
Kenmare, 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)
<b>Revenues:</b>				
Taxes	261,804.45	261,804.45	225,988.27	(35,816.18)
Special Assessments			24.35	24.35
Licenses, Permits and Fees	84,000.00	84,000.00	64,009.12	(19,990.88)
Intergovernmental	131,300.00	131,300.00	121,704.73	(9,595.27)
Miscellaneous	74,900.00	74,900.00	52,019.67	(22,880.33)
<b>Total Revenues</b>	<b>552,004.45</b>	<b>552,004.45</b>	<b>463,746.14</b>	<b>(88,258.31)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	299,400.00	299,400.00	299,326.27	73.73
Public Safety	179,700.00	179,700.00	169,215.19	10,484.81
Street and Public Works	8,000.00	8,000.00	6,808.73	1,191.27
Culture and Recreation	82,900.00	82,900.00	73,303.25	9,596.75
Conservation of Natural Resources	10,000.00	10,000.00		10,000.00
Other	10,000.00	10,000.00	4,790.66	5,209.34
<b>Total Expenditures</b>	<b>590,000.00</b>	<b>590,000.00</b>	<b>553,444.10</b>	<b>36,555.90</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(37,995.55)</b>	<b>(37,995.55)</b>	<b>(89,697.96)</b>	<b>(51,702.41)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	20,000.00	20,000.00	102,941.95	82,941.95
Transfers Out			(15,894.75)	(15,894.75)
<b>Total Other Financing Sources (Uses)</b>	<b>20,000.00</b>	<b>20,000.00</b>	<b>87,047.20</b>	<b>67,047.20</b>
<b>Net Change in Fund Balances</b>	<b>(17,995.55)</b>	<b>(17,995.55)</b>	<b>(2,650.76)</b>	<b>15,344.79</b>
<b>Fund Balance - January 1</b>	<b>(65,131.77)</b>	<b>(65,131.77)</b>	<b>(65,131.77)</b>	
<b>Fund Balance - December 31</b>	<b>(83,127.32)</b>	<b>(83,127.32)</b>	<b>(67,782.53)</b>	<b>15,344.79</b>

CITY OF KENMARE  
Kenmare, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Special Assessments			4,643.43	4,643.43
Intergovernmental	61,300.00	61,300.00	68,552.72	7,252.72
Charges for Services	10,000.00	10,000.00	15,241.84	5,241.84
Miscellaneous			1,333.00	1,333.00
<b>Total Revenues</b>	<b>71,300.00</b>	<b>71,300.00</b>	<b>89,770.99</b>	<b>18,470.99</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	123,635.00	123,635.00	199,888.26	(76,253.26)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(52,335.00)</b>	<b>(52,335.00)</b>	<b>(110,117.27)</b>	<b>(57,782.27)</b>
<u>Other Financing Sources:</u>				
Transfers In			125,000.00	125,000.00
<b>Net Change in Fund Balances</b>	<b>(52,335.00)</b>	<b>(52,335.00)</b>	<b>14,882.73</b>	<b>67,217.73</b>
<b>Fund Balance - January 1</b>	<b>(55,306.98)</b>	<b>(55,306.98)</b>	<b>(55,306.98)</b>	
<b>Fund Balance - December 31</b>	<b>(107,641.98)</b>	<b>(107,641.98)</b>	<b>(40,424.25)</b>	<b>67,217.73</b>

CITY OF KENMARE  
Kenmare, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Highway Distribution Fund  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Special Assessments			19,190.23	19,190.23
Intergovernmental	80,000.00	80,000.00	66,669.77	(13,330.23)
Charges for Services	5,000.00	5,000.00	551.57	(4,448.43)
Miscellaneous			5,625.83	5,625.83
<b>Total Revenues</b>	<b>85,000.00</b>	<b>85,000.00</b>	<b>92,037.40</b>	<b>7,037.40</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	103,550.00	103,550.00	102,363.60	1,186.40
Capital Outlay	18,000.00	18,000.00		18,000.00
<b>Total Expenditures</b>	<b>121,550.00</b>	<b>121,550.00</b>	<b>102,363.60</b>	<b>19,186.40</b>
<b>Net Change in Fund Balances</b>	<b>(36,550.00)</b>	<b>(36,550.00)</b>	<b>(10,326.20)</b>	<b>26,223.80</b>
<b>Fund Balance - January 1</b>	<b>(44,980.78)</b>	<b>(44,980.78)</b>	<b>(44,980.78)</b>	
<b>Fund Balance - December 31</b>	<b>(81,530.78)</b>	<b>(81,530.78)</b>	<b>(55,306.98)</b>	<b>26,223.80</b>

CITY OF KENMARE  
Kenmare, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
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	180,000.00	180,000.00	190,501.37	10,501.37
Intergovernmental			118,339.62	118,339.62
Miscellaneous	200.00	200.00	476.28	276.28
<b>Total Revenues</b>	<b>180,200.00</b>	<b>180,200.00</b>	<b>309,317.27</b>	<b>129,117.27</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	150,000.00	150,000.00	35,750.20	114,249.80
Culture and Recreation	15,000.00	15,000.00		15,000.00
Health and Welfare	5,000.00	5,000.00		5,000.00
Capital Outlay			19,128.00	(19,128.00)
Debt Service:				
Principal			89,111.59	(89,111.59)
<b>Total Expenditures</b>	<b>170,000.00</b>	<b>170,000.00</b>	<b>143,989.79</b>	<b>26,010.21</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>10,200.00</b>	<b>10,200.00</b>	<b>165,327.48</b>	<b>155,127.48</b>
<u>Other Financing (Uses):</u>				
Transfers Out			(140,000.00)	(140,000.00)
<b>Net Change in Fund Balances</b>	<b>10,200.00</b>	<b>10,200.00</b>	<b>25,327.48</b>	<b>15,127.48</b>
<b>Fund Balance - January 1</b>	<b>99,717.49</b>	<b>99,717.49</b>	<b>99,717.49</b>	
<b>Fund Balance - December 31</b>	<b>109,917.49</b>	<b>109,917.49</b>	<b>125,044.97</b>	<b>15,127.48</b>

CITY OF KENMARE  
Kenmare, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Sales Tax Fund  
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	270,000.00	270,000.00	202,305.53	(67,694.47)
Miscellaneous	600.00	600.00	243.74	(356.26)
<b>Total Revenues</b>	<b>270,600.00</b>	<b>270,600.00</b>	<b>202,549.27</b>	<b>(68,050.73)</b>
<u>Expenditures:</u>				
<u>Current:</u>				
Streets and Public Works	300,000.00	300,000.00	51,385.58	248,614.42
Culture and Recreation	25,000.00	25,000.00		25,000.00
Health and Welfare	5,000.00	5,000.00		5,000.00
<u>Debt Service:</u>				
Principal			178,223.18	(178,223.18)
<b>Total Expenditures</b>	<b>330,000.00</b>	<b>330,000.00</b>	<b>229,608.76</b>	<b>100,391.24</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(59,400.00)</b>	<b>(59,400.00)</b>	<b>(27,059.49)</b>	<b>32,340.51</b>
<u>Other Financing (Uses):</u>				
Transfers Out			(15,000.00)	(15,000.00)
<b>Net Change in Fund Balances</b>	<b>(59,400.00)</b>	<b>(59,400.00)</b>	<b>(42,059.49)</b>	<b>17,340.51</b>
<b>Fund Balance - January 1</b>	<b>141,776.98</b>	<b>141,776.98</b>	<b>141,776.98</b>	
<b>Fund Balance - December 31</b>	<b>82,376.98</b>	<b>82,376.98</b>	<b>99,717.49</b>	<b>17,340.51</b>

CITY OF KENMARE  
Kenmare, 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, 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

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>
<u>Special Revenue Funds</u>		
Municipal Highway	76,253.26	
Library	4,049.40	
Cemetery	6,636.96	
<u>Debt Service Fund</u>		
Street Imp. District No. 7	10,093.11	5,458.00

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

CITY OF KENMARE  
Kenmare, North Dakota

Schedule of Employer's Share of Net Pension Liability  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2017 -----	2016 -----	2015 -----
City's proportion of the net pension liability	0.036443%	0.027343%	0.037542%
City's proportionate share of the net pension liability	355,173	185,928	238,287
City's covered-employee payroll	356,338	339,285	295,599
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	99.67%	54.80%	80.61%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

Schedule of Employer Contributions  
ND Public Employees Retirement System  
Last 10 Fiscal Years\*

	2017 -----	2016 -----	2015 -----
Statutorily required contribution	25,371	24,157	19,596
Contributions in relation to the statutorily required contribution	(25,371)	(24,157)	(19,596)
Contribution deficiency (excess)	0	0	0
City's covered-employee payroll	356,338	339,285	295,599
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	6.63%

\* Complete data for this schedule is not available prior to 2015.

- For changes of assumptions, see Note 10 to the financial statements.

CITY OF KENMARE  
Kenmare, 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
<b>Major Governmental Funds</b>						
General Fund	(67,782.53)	520,384.20	64,403.68		525,615.73	(8,610.38)
Highway Distribution	(55,306.98)	89,770.99	125,000.00		199,888.26	(40,424.25)
Sales Tax	99,717.49	309,317.27		140,000.00	143,989.79	125,044.97
Street Improvement District No. 7	194,396.07	57,834.05			132,543.11	119,687.01
<b>Total Major Governmental Funds</b>	<b>171,024.05</b>	<b>977,306.51</b>	<b>189,403.68</b>	<b>140,000.00</b>	<b>1,002,036.89</b>	<b>195,697.35</b>
<b>Non-Major Governmental Funds</b>						
Library	11,023.32	894.26			7,649.40	4,268.18
Emergency	8,678.19	8,001.79			255.01	16,424.97
Cemetery	5,106.96	12,226.19			15,036.96	2,296.19
Police Department	8,057.69	36,925.40		4,403.68	40,579.41	
Job Development		32,158.34			32,158.34	
Street Improvement District No. 8	79,736.49	15,312.54			23,448.79	71,600.24
<b>Total Non-Major Governmental Funds</b>	<b>112,602.65</b>	<b>105,518.52</b>		<b>4,403.68</b>	<b>119,127.91</b>	<b>94,589.58</b>
<b>Total Governmental Funds</b>	<b>283,626.70</b>	<b>1,082,825.03</b>	<b>189,403.68</b>	<b>144,403.68</b>	<b>1,121,164.80</b>	<b>290,286.93</b>
<b>Major Enterprise Funds</b>						
Water	104,445.71	251,109.87		45,000.00	283,078.99	27,476.59
Sewer	(8,655.51)	85,264.12			60,933.28	15,675.33
Garbage and Landfill	23,911.39	195,390.66			203,421.40	15,880.65
W&S Improvement District 1993-1	254,889.97	541,540.99			490,011.36	306,419.60
<b>Total Major Enterprise Funds</b>	<b>374,591.56</b>	<b>1,073,305.64</b>		<b>45,000.00</b>	<b>1,037,445.03</b>	<b>365,452.17</b>
<b>Non-Major Enterprise Funds</b>						
Landfill Maintenance		7,325.11				7,325.11
Water Deposit	7,370.31	1,478.50			825.00	8,023.81
Water Maintenance Fee	106,330.40	13,760.84				120,091.24
<b>Total Non-Major Enterprise Funds</b>	<b>113,700.71</b>	<b>22,564.45</b>			<b>825.00</b>	<b>135,440.16</b>
<b>Total Enterprise Funds</b>	<b>488,292.27</b>	<b>1,095,870.09</b>		<b>45,000.00</b>	<b>1,038,270.03</b>	<b>500,892.33</b>
<b>Agency Funds</b>						
Fund ITT		114,300.84			114,300.84	
Park District		8,613.76			8,613.76	
Fire Department		14,554.45			14,554.45	
<b>Total Agency Funds</b>		<b>137,469.05</b>			<b>137,469.05</b>	
<b>Total Primary Government</b>	<b>771,918.97</b>	<b>2,316,164.17</b>	<b>189,403.68</b>	<b>189,403.68</b>	<b>2,296,903.88</b>	<b>791,179.26</b>
<b>Discretely Presented Component Unit</b>						
Airport Authority	45,455.46	97,750.17			123,180.22	20,025.41
<b>Total Reporting Entity</b>	<b>817,374.43</b>	<b>2,413,914.34</b>	<b>189,403.68</b>	<b>189,403.68</b>	<b>2,420,084.10</b>	<b>811,204.67</b>



CITY OF KENMARE  
Kenmare, 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 Funds</u>						
General Fund	(65,131.77)	463,746.14	102,941.95	15,894.75	553,444.10	(67,782.53)
Highway Distribution	(44,980.78)	92,037.40			102,363.60	(55,306.98)
Sales Tax	141,776.98	202,549.27		15,000.00	229,608.76	99,717.49
Street Improvement District No. 7	251,882.66	70,396.41			127,883.00	194,396.07
<b>Total Major Governmental Funds</b>	<b>283,547.09</b>	<b>828,729.22</b>	<b>102,941.95</b>	<b>30,894.75</b>	<b>1,013,299.46</b>	<b>171,024.05</b>
<u>Non-Major Governmental Funds</u>						
Gaming Fund	421.36			421.36		
Social Security	9,003.37			9,003.37		
Library	5,347.02	5,759.06			82.76	11,023.32
Emergency	9,190.26	7,071.28			7,583.35	8,678.19
City Forestry	14,207.80			14,207.80		
Recreation	(226.01)		226.01			
Planning Commission	10,155.46			10,155.46		
Cemetery	3,421.00	8,953.93			7,267.97	5,106.96
Memorial Hall	(15,668.74)		15,668.74			
Advertising	1,385.43			1,385.43		
Fire Department	440.86	627.18			1,068.04	
Police Department	(1,267.85)	92,019.86		7,768.53	74,925.79	8,057.69
Job Development	(120.26)	52,178.69			52,058.43	
Street Improvement District No. 8	55,738.42	47,626.86			23,628.79	79,736.49
<b>Total Non-Major Governmental Funds</b>	<b>92,028.12</b>	<b>214,236.86</b>	<b>15,894.75</b>	<b>42,941.95</b>	<b>166,615.13</b>	<b>112,602.65</b>
<b>Total Governmental Funds</b>	<b>375,575.21</b>	<b>1,042,966.08</b>	<b>118,836.70</b>	<b>73,836.70</b>	<b>1,179,914.59</b>	<b>283,626.70</b>
<u>Major Enterprise Funds</u>						
Water	196,380.35	233,271.79		45,000.00	280,206.43	104,445.71
Sewer	5,423.47	82,149.75			96,228.73	(8,655.51)
Garbage and Landfill	33,198.91	202,126.54			211,414.06	23,911.39
W&S Improvement District 1993-1	206,721.59	180,731.02			132,562.64	254,889.97
<b>Total Major Enterprise Funds</b>	<b>441,724.32</b>	<b>698,279.10</b>		<b>45,000.00</b>	<b>720,411.86</b>	<b>374,591.56</b>
<u>Non-Major Enterprise Funds</u>						
Water Deposit	6,043.00	2,609.50			1,282.19	7,370.31
Water Maintenance Fee	92,428.87	13,901.53				106,330.40
<b>Total Non-Major Enterprise Funds</b>	<b>98,471.87</b>	<b>16,511.03</b>			<b>1,282.19</b>	<b>113,700.71</b>
<b>Total Enterprise Funds</b>	<b>540,196.19</b>	<b>714,790.13</b>		<b>45,000.00</b>	<b>721,694.05</b>	<b>488,292.27</b>
<u>Agency Funds</u>						
Fund ITT		121,381.72			121,381.72	
Park District		9,763.10			9,763.10	
<b>Total Agency Funds</b>		<b>131,144.82</b>			<b>131,144.82</b>	
<b>Total Primary Government</b>	<b>915,771.40</b>	<b>1,888,901.03</b>	<b>118,836.70</b>	<b>118,836.70</b>	<b>2,032,753.46</b>	<b>771,918.97</b>
<u>Discretely Presented Component Unit</u>						
Airport Authority	29,813.80	583,257.64			567,615.98	45,455.46
<b>Total Reporting Entity</b>	<b>945,585.20</b>	<b>2,472,158.67</b>	<b>118,836.70</b>	<b>118,836.70</b>	<b>2,600,369.44</b>	<b>817,374.43</b>

# Rath & Mehler

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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 Kenmare  
Kenmare, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kenmare, Kenmare, 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 September 28, 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 audits 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

September 28, 2018

CITY OF KENMARE  
Kenmare, 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
Discretely Presented Component Unit	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 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.