

**OFFICE OF  
STATE AUDITOR**

**AUDIT REPORT**

**CITY OF DEVILS LAKE  
DEVILS LAKE, NORTH DAKOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2012**



---

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

TABLE OF CONTENTS  
For the Year Ended December 31, 2012

---

	<u>Page(s)</u>
City Officials	1
Independent Auditor's Report	2 - 3
Management's Discussion and Analysis	4 - 11
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Notes to the Financial Statements	21 - 38
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules	39 - 40
Notes to the Required Supplementary Information	41

**CITY OF DEVILS LAKE**  
Table of Contents - Continued

---

	<u>Page(s)</u>
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Fund Activity	42 - 43
Schedule of Expenditures of Federal Awards	44
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	45 - 46
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	47 - 48
Schedule of Findings and Questioned Costs	49

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

**CITY OFFICIALS**

As of December 31, 2012

Richard S. Johnson	President
Rick Morse	Commissioner
Tim S. Heisler	Commissioner
Craig Stromme	Commissioner
Dale Robbins	Commissioner
Terry Johnston	City Administrator
J. Thomas Traynor, Jr.	Attorney

**AIRPORT OFFICIALS**

As of December 31, 2012

James Kienast	Chairman
Renard Bergstrom	Board Member
Lt. Col. Clark Johnson	Board Member
Craig Stromme	Board Member
Bill Mertens	Board Member
Dennis Olson	Board Member
John Nord	Manager
J. Thomas Traynor, Jr.	Attorney

STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

---

INDEPENDENT AUDITOR'S REPORT

---

City Commission  
City of Devils Lake  
Devils Lake, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, North Dakota, as of and for the year ended December 31, 2012, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, North Dakota, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis and budgetary comparison information* on pages 4-11 and 39-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Devils Lake's basic financial statements. The *schedule of fund activity and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statements.

The *schedule of fund activity and schedule of expenditures of federal awards* are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity and the schedule of expenditures of federal awards* 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 August 19, 2013 on our consideration of the City of Devils Lake'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 City of Devils Lake's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

August 19, 2013

---

---

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012

---

As management of the City of Devils Lake, North Dakota, we offer readers of the City of Devils Lake's financial statements this narrative overview and analysis of the financial activities of the City of Devils Lake for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements, which can be found on pages 12-38 of this report.

### Financial Highlights

- The total assets of the City of Devils Lake exceeded its total liabilities at the close of the most recent fiscal year by \$213,409,258 (*net position*). Of this amount, \$1,098,983 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$40,696,438, consisting of \$41,665,945 for governmental activities, and (\$969,507) for enterprise activities.
- As of the close of the current fiscal year, the City of Devils Lake's governmental funds reported combined ending fund balances of \$27,407,609, a decrease of \$3,446,532 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,300,212, or 51 percent of total general fund expenditures.
- The City of Devils Lake's total long-term liabilities decreased by \$1,095,119 (8 percent) during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Devils Lake's basic financial statements. The City of Devils Lake's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City of Devils Lake'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 of Devils Lake is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the City of Devils Lake that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Devils Lake include general government, public safety, highways and streets, and economic development. The business-type activities of the City of Devils Lake include the water utility, sewer utility and sanitation.

## CITY OF DEVILS LAKE

### Management's Discussion and Analysis - Continued

---

The government-wide financial statements include not only the City of Devils Lake itself (known as the *primary government*), but also a legally separate airport authority for which the City of Devils Lake is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Devils Lake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Devils Lake can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Devils Lake maintains 52 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Lake Region growth fund, infrastructure fund, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other 47 governmental funds are combined into a single, aggregated presentation. Fund data for the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Devils Lake adopts an annual appropriated budget for its governmental funds, except for capital projects funds. A budgetary comparison statement has been provided for all of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

**Proprietary funds.** The City of Devils Lake maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Devils Lake uses enterprise funds to account for its water, sewer and sanitation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Devils Lake's various functions. The City of Devils Lake uses an internal service fund to account for its self-insurance fund. Because the services of this fund predominantly benefit governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, water source replacement, sewer and sanitation funds, all of which are considered to be major funds of the City of Devils Lake. The internal service fund is also presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

## CITY OF DEVILS LAKE

### Management's Discussion and Analysis - Continued

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-38 of this report.

#### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Devils Lake, assets exceeded liabilities by \$213,409,258 at the close of the most recent fiscal year.

By far the largest portion of the City of Devils Lake's net position (87 percent) reflects its net investment in capital assets (e.g., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Devils Lake uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Devils Lake's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Devils Lake's net position (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (\$1,098,983) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Devils Lake is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's total net position increased by \$40,696,438 (23.6%) during the current fiscal year.

<b>City of Devils Lake's Net Position</b>						
As of December 31, 2012 and 2011						
	2012			2011		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
<b>Assets:</b>						
Current and Other Assets	\$ 29,472,899	\$ 2,286,566	\$ 31,759,465	\$ 32,878,075	\$ 3,564,668	\$ 36,442,743
Capital Assets (net of depreciation)	166,708,152	28,178,068	194,886,220	122,740,727	28,051,378	150,792,105
<b>Total Assets</b>	<b>\$196,181,051</b>	<b>\$30,464,634</b>	<b>\$226,645,685</b>	<b>\$155,618,802</b>	<b>\$31,616,046</b>	<b>\$187,234,848</b>
<b>Liabilities:</b>						
Current Liabilities	\$ 559,656	\$ 80,396	\$ 640,052	\$ 746,635	\$ 83,899	\$ 830,534
Long-Term Liabilities	9,225,573	3,370,802	12,596,375	10,142,290	3,549,204	13,691,494
<b>Total Liabilities</b>	<b>\$ 9,785,229</b>	<b>\$ 3,451,198</b>	<b>\$ 13,236,427</b>	<b>\$ 10,888,925</b>	<b>\$ 3,633,103</b>	<b>\$ 14,522,028</b>
<b>Net Position:</b>						
Net Investment in Capital Assets	\$157,866,111	\$28,178,068	\$186,044,179	\$113,035,101	\$28,051,378	\$141,086,479
Restricted	26,266,096	-	26,266,096	29,958,091	-	29,958,091
Unrestricted	2,263,615	(1,164,632)	1,098,983	1,736,685	(68,435)	1,668,250
<b>Total Net Position</b>	<b>\$186,395,822</b>	<b>\$27,013,436</b>	<b>\$213,409,258</b>	<b>\$144,729,877</b>	<b>\$27,982,943</b>	<b>\$172,712,820</b>

**CITY OF DEVILS LAKE**

## Management's Discussion and Analysis - Continued

**Governmental activities.** Governmental activities increased the City of Devils Lake's net position by \$41,665,945. This was due primarily to construction of a flood protection embankment financed primarily from capital contributions totaling \$38.9 million.

**Business-type activities.** Business-type activities decreased the City of Devils Lake's net position by \$969,507.

**City of Devils Lake's Changes in Net Position**

As of December 31, 2012

	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
<u>Program Revenues:</u>			
Charges for Services	\$ 597,013	\$ 3,037,463	\$ 3,634,476
Operating Grants & Contributions	2,962,068	5,000	2,967,068
Capital Grants & Contributions	38,856,041	-	38,856,041
<u>General Revenues:</u>			
Property Taxes	1,822,365	-	1,822,365
Sales and Other Taxes	2,769,497	296,991	3,066,488
Non-restricted grants and contributions	804,914	-	804,914
Interest Earnings	22,305	408	22,713
Miscellaneous Revenues	283,553	12,124	295,677
Total Revenues	\$ 48,117,756	\$ 3,351,986	\$ 51,469,742
<b>Expenses:</b>			
General Government	\$ 2,326,672	\$ -	\$ 2,326,672
Public Safety	1,899,834	-	1,899,834
Public Works	2,548,598	-	2,548,598
Economic Development	214,021	-	214,021
Conservation of Natural Resources	27,719	-	27,719
Culture and Recreation	210,249	-	210,249
Health and Welfare	11,710	-	11,710
Other	19,572	101,904	121,476
Interest and Fees	258,400	-	258,400
Water Operations	-	897,246	897,246
Sewer Operations	-	1,059,166	1,059,166
Sanitation Operations	-	1,198,213	1,198,213
Total Expenses	\$ 7,516,775	\$ 3,256,529	\$ 10,773,304
Change in Net Position Before Transfers	\$ 40,600,981	\$ 95,457	\$ 40,696,438
Transfers	1,064,964	(1,064,964)	-
Change in Net Position	\$ 41,665,945	\$ (969,507)	\$ 40,696,438
Net Position - January 1, 2012	\$144,729,877	\$27,982,943	\$172,712,820
Net Position - December 31, 2012	\$186,395,822	\$27,013,436	\$213,409,258

**CITY OF DEVILS LAKE**

Management's Discussion and Analysis - Continued

**City of Devils Lake's Changes in Net Position**

As of December 31, 2011

	Governmental Activities	Business-type Activities	Total
<b>Revenues:</b>			
<u>Program Revenues:</u>			
Charges for Services	\$ 598,046	\$ 2,901,269	\$ 3,499,315
Operating Grants & Contributions	19,393,137	5,000	19,398,137
Capital Grants & Contributions	51,881,823	-	51,881,823
<u>General Revenues:</u>			
Property Taxes	1,811,426	-	1,811,426
Sales and Other Taxes	2,616,585	319,799	2,936,384
Non-restricted grants and contributions	636,108	-	636,108
Interest Earnings	21,464	861	22,325
Miscellaneous Revenues	313,909	59,600	373,509
Total Revenues	\$ 77,272,498	\$ 3,286,529	\$ 80,559,027
<b>Expenses:</b>			
General Government	\$ 1,165,857	\$ -	\$ 1,165,857
Public Safety	1,958,078	-	1,958,078
Public Works	3,567,068	-	3,567,068
Economic Development	170,105	-	170,105
Conservation of Natural Resources	37,881	-	37,881
Culture and Recreation	209,528	-	209,528
Health and Welfare	10,323	-	10,323
Other	15,716	107,405	123,121
Interest and Fees	226,573	-	226,573
Water Operations	-	808,590	808,590
Sewer Operations	-	2,315,369	2,315,369
Sanitation Operations	-	1,139,365	1,139,365
Total Expenses	\$ 7,361,129	\$ 4,370,729	\$ 11,731,858
Change in Net Position Before Transfers	\$ 69,911,369	\$ (1,084,200)	\$ 68,827,169
Transfers	(1,708,897)	1,708,897	-
Change in Net Position	\$ 68,202,472	\$ 624,697	\$ 68,827,169
Net Position – January 1, 2011	\$ 76,527,405	\$27,358,246	\$103,885,651
Net Position - December 31, 2011	\$144,729,877	\$27,982,943	\$172,712,820

**Financial Analysis of the Government's Funds**

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

**Governmental funds.** The focus of the City of Devils Lake's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Devils Lake's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Devils Lake's governmental funds reported combined ending fund balances of \$27,407,609, a decrease of \$3,446,532 in comparison with the prior year. 8 percent of this amount (\$2,222,581) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *restricted or committed* to indicate that it is not available for new spending because it has already been restricted to 1) pay debt service (\$18,166,187), or for various other special purposes totaling \$4,790,268 for 2) advances, general government, capital projects, public works/streets, economic development, emergency, culture/recreation, conservation of resources, asset forfeiture buys, and city beautification, or is *non-spendable* related to loans receivable (\$2,228,573).

## CITY OF DEVILS LAKE

### Management's Discussion and Analysis - Continued

The general fund is the chief operating fund of the City of Devils Lake. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,300,212, while total fund balance totaled \$2,445,593. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned general fund balance represents 54 percent of the total general fund expenditures. Total general fund balance represents 51 percent of total general fund expenditures.

The fund balance of the City of Devils Lake's general fund decreased by \$67,679 during the current fiscal year.

**Proprietary funds.** The City of Devils Lake's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Devils Lake's enterprise funds reported combined ending net position of \$27,013,436, a decrease of \$969,507 in comparison with the prior year. 104 percent of the total net position (\$28,178,068) is *net investment in capital assets* used to acquire those assets, net of related debt that is still outstanding. The City of Devils Lake uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Additional information on the City of Devils Lake's proprietary funds can be found in note 25 on page 36 of this report.

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- \$625,922, increase in revenues or 19.9 percent of the original budget.
- \$364,140 increase in expenditures or 8.7 percent of the original budget.
- The final budget anticipated an increase in fund balance by \$261,782.

During the year, revenues were more than budgetary estimates by \$25,894, expenditures were more than budgetary estimates by \$16,665, other financing sources and uses were less than budgetary estimates by \$39,874 and ending fund balance decreased compared to budgetary estimates by \$30,645.

Additional information on the City of Devils Lake's budget amendments can be found in note 2 on pages 26-27 of this report.

### Capital Asset and Debt Administration

**Capital assets.** The City of Devils Lake's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounts to \$194,886,220 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, equipment, and construction in progress. The total increase in the City of Devils Lake's investment in capital assets for the current fiscal year was \$44,094,115 (29%).

<b>Capital Assets</b>						
(Net of Accumulated Depreciation)						
As of December 31, 2012 and 2011						
	2012			2011		
	Governmental Activities	Business- type Activities	Total	Governmental Activities	Business- type Activities	Total
Land	\$ 3,259,542	\$ 218,289	\$ 3,477,831	\$ 2,388,146	\$ 185,920	\$ 2,574,066
Buildings	1,178,569	1,793,569	2,971,738	1,263,060	2,038,121	3,301,181
Infrastructure	39,184,726	23,844,110	63,028,836	40,395,938	14,485,792	54,881,730
Equipment	1,031,227	803,750	1,834,977	1,073,065	887,836	1,960,901
Construction in Progress	122,054,488	1,518,350	123,572,838	77,620,518	10,453,709	88,074,227
<b>Total Capital Assets</b>	<b>\$166,708,152</b>	<b>\$28,178,068</b>	<b>\$194,886,220</b>	<b>\$122,740,727</b>	<b>\$28,051,378</b>	<b>\$150,792,105</b>

## CITY OF DEVILS LAKE

### Management's Discussion and Analysis - Continued

The increase in net capital assets is largely due to construction of a flood protection embankment for the City of Devils Lake.

Additional information on the City of Devils Lake's capital assets can be found in note 14 on pages 30-31 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Devils Lake had total debt outstanding of \$12,596,375, including compensated absences. Of this amount, \$6,100,000 comprises special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment, and \$5,250,000 are bonds and drawdowns secured solely by specified revenue sources (i.e., revenue bonds) and compensated absences.

The City of Devils Lake's total debt decreased by \$1,095,119 (8 percent) during the current fiscal year due mainly to annual payments on special assessment bonds totaling \$685,000.

<b>Outstanding Long-Term Debt</b>						
As of December 31, 2012 and 2011						
	2012			2011		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
Landfill Closure Bonds	\$ -	\$ 160,000	\$ 160,000	\$ -	\$ 155,000	\$ 155,000
Special Assessment Bonds	6,100,000	-	6,100,000	6,785,000	-	6,785,000
Capital Lease	342,041	195,000	537,041	420,626	255,000	675,626
Revenue Drawdowns Payable	2,400,000	2,850,000	5,250,000	2,500,000	3,010,000	5,510,000
Compensated Absences	383,532	165,802	549,334	436,664	129,204	565,868
Total	\$9,225,573	\$3,370,802	\$12,596,375	\$10,142,290	\$3,549,204	\$13,691,494

Additional information on the City of Devils Lake's long-term debt can be found in note 20 on pages 32-34 of this report.

### Economic Factors and Next Year's Budgets and Rates

- For budgetary purposes, the City of Devils Lake requires a 33 percent fund balance reserve of operations and maintenance expenditures for the general fund and a 25 percent fund balance reserve of operations and maintenance expenditures for the water fund, sewer fund and sanitation fund.
- The City of Devils Lake's 2 percent City occupancy tax revenues increased by \$4,378 or 4 percent in comparison to the prior year.
- The City of Devils Lake's taxable sales and purchases increased by \$12,217,372 or 7 percent in comparison to the prior year and the City sales tax revenues increased by \$273,905 or 10 percent in comparison to the prior year.
- The City of Devils Lake's 1 percent City restaurant and lodging tax revenues increased by \$20,842 or 9 percent in comparison to the prior year.
- For the 2012 Budget, Water rates were unchanged, Sanitation rates increased 3 percent and Sewer rates were unchanged.
- The City of Devils Lake's taxable valuation increased by \$347,327 or 4 percent in comparison to the prior year.
- The 2012 budget included an approximately 2.3 mill decrease, or a 2% decrease from 2011.
- Due to continued flooding in the Lake Region area, the City of Devils Lake is in the process of raising the levee system that protects the City. This project will run from late 2010 to late 2013. The anticipated cost for this project is \$155,000,000. The City of Devils Lake has received \$116,250,000 in funding from the federal government, \$36,250,000 in funding from the State of North Dakota and a loan approved for \$2,500,000 for this project. The \$2.5M loan will be paid back with Sales Tax Revenues.

## **CITY OF DEVILS LAKE**

Management's Discussion and Analysis - Continued

---

### **Contacting the City's Financial Management**

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it received to the citizens of the City of Devils Lake. If you have any question about this report or need further information, contact the City of Devils Lake Auditing Department, 423 6<sup>th</sup> Street NE, Devils Lake, ND 58301 or visit us online at [dvlnd.com](http://dvlnd.com).

CITY OF DEVILS LAKE  
Devils Lake, North Dakota  
STATEMENT OF NET POSITION  
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Airport
<b>ASSETS</b>				
Cash and investments	\$ 9,082,872	\$ 2,036,721	\$ 11,119,593	\$ 298,851
Cash with Fiscal Agent	1	-	1	-
Deposit with Fiscal Agent	16,137,751	-	16,137,751	-
Utility billings receivable	-	211,736	211,736	-
Accounts receivable	12,225	11,246	23,471	-
Intergovernmental receivable	546,630	26,863	573,493	44,899
Prepaid Expense	29,512	-	29,512	-
Taxes receivable	29,801	-	29,801	782
Special assessments receivable	14,916	-	14,916	-
Loans receivable	2,228,573	-	2,228,573	-
Long-Term Receivable:				
Uncertified special assessments receivable	1,390,618	-	1,390,618	-
Capital Assets:				
<i>Not Being Depreciated</i>				
Land	3,259,542	218,289	3,477,831	400,589
Construction in progress	122,054,488	1,518,350	123,572,838	2,853,149
<i>Being Depreciated</i>				
Buildings	1,178,169	1,793,569	2,971,738	1,797,396
Equipment and vehicles	1,031,227	803,750	1,834,977	122,390
Infrastructure	39,184,726	23,844,110	63,028,836	7,551,354
Total Capital Assets	<u>\$ 166,708,152</u>	<u>\$ 28,178,068</u>	<u>\$ 194,886,220</u>	<u>\$ 12,724,878</u>
Total Assets	<u>\$ 196,181,051</u>	<u>\$ 30,464,634</u>	<u>\$ 226,645,685</u>	<u>\$ 13,069,410</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 301,431	\$ 66,635	\$ 368,066	\$ 133,819
Salaries and benefits payable	205	-	205	-
Retainage payable	169,535	-	169,535	-
IBNR payable	62,000	-	62,000	-
Interest payable	26,485	13,761	40,246	-
Long-Term Liabilities:				
Portion Due or Payable Within One Year:				
Sales tax bonds payable	105,000	-	105,000	-
Revenue bond drawdowns	-	160,000	160,000	-
Special assessment bonds payable	775,000	-	775,000	-
Capital leases payable	81,143	65,000	146,143	-
Compensated absences payable	115,060	49,739	164,799	3,617
Portion Due or Payable After One Year:				
Sales tax bonds payable	2,295,000	-	2,295,000	-
Revenue bond drawdowns	-	2,850,000	2,850,000	-
Special assessment bonds payable	5,325,000	-	5,325,000	-
Capital leases payable	260,898	130,000	390,898	-
Compensated absences payable	268,472	116,063	384,535	32,550
Total Liabilities	<u>\$ 9,785,229</u>	<u>\$ 3,451,198</u>	<u>\$ 13,236,427</u>	<u>\$ 169,986</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	\$ 157,866,111	\$ 28,178,068	\$ 186,044,179	\$ 12,724,878
Restricted for:				
Debt service	2,313,062	-	2,313,062	-
Capital Projects	17,996,652	-	17,996,652	-
General Government	2,047,107	-	2,047,107	-
Public works	1,136,058	-	1,136,058	-
Emergencies	59,142	-	59,142	-
Economic/job development	2,548,844	-	2,548,844	-
Culture and recreation	121,891	-	121,891	-
Conservation of natural resources	43,340	-	43,340	-
Unrestricted	<u>2,263,615</u>	<u>(1,164,632)</u>	<u>1,098,983</u>	<u>174,546</u>
Total Net Position	<u>\$ 186,395,822</u>	<u>\$ 27,013,436</u>	<u>\$ 213,409,258</u>	<u>\$ 12,899,424</u>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Airport
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
General government	\$ 2,326,672	\$ 361,370	\$ -	\$ -	\$ (1,965,302)		\$ (1,965,302)	
Public safety	1,899,834	6,850	-	191,626	(1,701,358)		(1,701,358)	
Public works	2,548,598	223,770	718,413	742,689	(863,726)		(863,726)	
Flood Prevention	-	-	2,232,929	37,882,266	40,115,195		40,115,195	
Economic development	214,021	-	8,426	-	(205,595)		(205,595)	
Culture and recreation	210,249	5,023	-	39,460	(165,766)		(165,766)	
Conserv. of natural resources	27,719	-	2,300	-	(25,419)		(25,419)	
Health and welfare	11,710	-	-	-	(11,710)		(11,710)	
Other	19,572	-	-	-	(19,572)		(19,572)	
Interest & fees on long-term debt	258,400	-	-	-	(258,400)		(258,400)	
<b>Total Governmental Activities</b>	<b>\$ 7,516,775</b>	<b>\$ 597,013</b>	<b>\$ 2,962,068</b>	<b>\$ 38,856,041</b>	<b>\$ 34,898,347</b>		<b>\$ 34,898,347</b>	
<b>Business-Type Activities:</b>								
Water operations	\$ 897,246	\$ 724,832	\$ -	\$ -	\$ -	\$ (172,414)	\$ (172,414)	
Water source replacement	93,982	286,605	-	-	-	192,623	-	
Sewer	1,059,166	512,074	-	-	-	(547,092)	-	
Sanitation	1,198,213	1,459,987	5,000	-	-	266,774	-	
Other enterprise funds	7,922	53,965	-	-	-	46,043	46,043	
<b>Total Business-Type Activities</b>	<b>\$ 3,256,529</b>	<b>\$ 3,037,463</b>	<b>\$ 5,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (214,066)</b>	<b>\$ (126,371)</b>	
<b>Total Primary Government</b>	<b>\$ 10,773,304</b>	<b>\$ 3,634,476</b>	<b>\$ 2,967,068</b>	<b>\$ 38,856,041</b>	<b>\$ 34,898,347</b>	<b>\$ (214,066)</b>	<b>\$ 34,771,976</b>	
<b>Component Unit:</b>								
Airport	\$ 850,290	\$ 185,913	\$ 2,630,159	\$ -				\$ 1,965,782
<b>General Revenues:</b>								
<b>Taxes:</b>								
Property taxes, levied for general purposes					\$ 1,217,037	\$ -	\$ 1,217,037	\$ 99,508
Property taxes, levied for special purposes					339,227	-	339,227	-
Property taxes, levied for Debt Service					266,101	-	-	-
Sales taxes					2,769,497	296,991	3,066,488	-
Non-Restricted Grants and Contributions					804,914	-	804,914	-
Unrestricted Investment Earnings					22,305	408	22,713	-
Sale of Capital Assets					25,509	-	25,509	-
Miscellaneous					258,044	12,124	270,168	180,878
Transfers- Enterprise (Net)					1,064,964	(1,064,964)	-	-
<b>Total General Revenues and Transfers</b>					<b>\$ 6,767,598</b>	<b>\$ (755,441)</b>	<b>\$ 5,746,056</b>	<b>\$ 280,386</b>
<b>Changes in Net Position</b>					<b>\$ 41,665,945</b>	<b>\$ (969,507)</b>	<b>\$ 40,696,438</b>	<b>\$ 2,246,168</b>
<b>Net Position - January 1</b>					<b>\$ 144,729,877</b>	<b>\$ 27,982,943</b>	<b>\$ 172,712,820</b>	<b>\$ 10,653,256</b>
<b>Net Position - December 31</b>					<b>\$ 186,395,822</b>	<b>\$ 27,013,436</b>	<b>\$ 213,409,258</b>	<b>\$ 12,899,424</b>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2012

	General Fund	Lake Region Growth Fund	Infrastructure	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and Investments	\$ 2,002,393	\$ 251,466	\$ 781,655	\$ 2,204,151	\$ 974,532	\$ 2,569,868	\$ 8,784,065
Cash with Fiscal Agent	-	-	-	-	1	-	1
Deposit with Fiscal Agent	-	-	-	16,137,751	-	-	16,137,751
Accounts Receivable	12,119	-	-	-	106	-	12,225
Intergovernmental Receivable	329,652	-	97,748	39,460	8,162	71,608	546,630
Taxes Receivable	18,674	-	-	-	4,626	6,501	29,801
Special Assessments Receivable	-	-	-	-	14,916	-	14,916
Uncertified Special Assessments Receivable	-	-	-	-	1,390,618	-	1,390,618
Loans Receivable	-	2,228,573	-	-	-	-	2,228,573
Advance Due from Other Funds	145,381	-	-	-	-	-	145,381
Due from Other Funds	8,847	-	-	-	-	-	8,847
<b>Total Assets</b>	<b>\$ 2,517,066</b>	<b>\$ 2,480,039</b>	<b>\$ 879,403</b>	<b>\$ 18,381,362</b>	<b>\$ 2,392,961</b>	<b>\$ 2,647,977</b>	<b>\$ 29,298,808</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts Payable	\$ 52,594	\$ -	\$ 2,648	\$ 215,175	\$ 666	\$ 30,348	\$ 301,431
Salaries and Benefits Payable	205	-	-	-	-	-	205
Advance Due to Other Funds	-	-	-	-	52,748	92,633	145,381
Due to Other Funds	-	-	-	-	-	8,847	8,847
<b>Total Liabilities</b>	<b>\$ 52,799</b>	<b>\$ -</b>	<b>\$ 2,648</b>	<b>\$ 215,175</b>	<b>\$ 53,414</b>	<b>\$ 131,828</b>	<b>\$ 455,864</b>
<b>Deferred Inflows of Resources:</b>							
Uncollected Taxes Receivable	\$ 18,674	\$ -	\$ -	\$ -	\$ 4,626	\$ 6,501	\$ 29,801
Uncollected Special Assessments Receivable	-	-	-	-	14,916	-	14,916
Uncertified Special Assessments Receivable	-	-	-	-	1,390,618	-	1,390,618
<b>Total Deferred Inflows of Resources</b>	<b>\$ 18,674</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,410,160</b>	<b>\$ 6,501</b>	<b>\$ 1,435,335</b>
<b>Total Liabilities &amp; Deferred Inflows of Resources</b>	<b>\$ 71,473</b>	<b>\$ -</b>	<b>\$ 2,648</b>	<b>\$ 215,175</b>	<b>\$ 1,463,574</b>	<b>\$ 138,329</b>	<b>\$ 1,891,199</b>
<b>Fund Balances:</b>							
<b>Non-Spendable:</b>							
Loans Receivable	\$ -	\$ 2,228,573	\$ -	\$ -	\$ -	\$ -	\$ 2,228,573
<b>Restricted:</b>							
Advances	145,381	-	-	-	-	-	145,381
Debt Service	-	-	-	-	929,387	-	929,387
Capital Projects Funds	-	-	-	18,166,187	-	-	18,166,187
General government	-	-	-	-	-	2,040,590	2,040,590
Public works/streets	-	-	876,755	-	-	256,193	1,132,948
Emergency	-	-	-	-	-	59,142	59,142
Economic development	-	251,466	-	-	-	68,049	319,515
Culture & recreation	-	-	-	-	-	93,245	93,245
Conservation of Natural Resources	-	-	-	-	-	42,818	42,818
<b>Committed:</b>							
Asset Forfeiture Buy Fund	-	-	-	-	-	940	940
City Beautification	-	-	-	-	-	26,302	26,302
<b>Unassigned:</b>							
General Fund	2,300,212	-	-	-	-	-	2,300,212
Negative Fund Balances	-	-	-	-	-	(77,631)	(77,631)
<b>Total Fund Balances</b>	<b>\$ 2,445,593</b>	<b>\$ 2,480,039</b>	<b>\$ 876,755</b>	<b>\$ 18,166,187</b>	<b>\$ 929,387</b>	<b>\$ 2,509,648</b>	<b>\$ 27,407,609</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 2,517,066</b>	<b>\$ 2,480,039</b>	<b>\$ 879,403</b>	<b>\$ 18,381,362</b>	<b>\$ 2,392,961</b>	<b>\$ 2,647,977</b>	<b>\$ 29,298,808</b>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2012

Total <i>Fund Balances</i> for Governmental Funds		\$ 27,407,609
Total <i>net position</i> reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of Capital Assets	\$ 201,156,897	
Less Accumulated Depreciation	<u>(34,448,745)</u>	
Net Capital Assets		166,708,152
Property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.		
Property Taxes	\$ 29,801	
Special Assessments	14,916	
Long-Term Uncertified Special Assessments	<u>1,390,618</u>	1,435,335
Internal service funds are used by management to charge the costs of certain activities such as self insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		
		266,319
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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities --both current and long-term--are reported in the statement of net position. Balances at December 31, 2012 are:		
Special Assessment Bonds Payable	\$ (6,100,000)	
Sales Tax Bonds Payable	(2,400,000)	
Capital Leases Payable	(342,041)	
Retainage Payable	(169,535)	
Interest Payable	(26,485)	
Compensated Absences	<u>(383,532)</u>	
Total Long-Term Liabilities		<u>(9,421,593)</u>
Total Net Position of Governmental Activities		<u>\$ 186,395,822</u>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2012

	General Fund	Lake Region Growth Fund	Infrastructure	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>							
Taxes	\$ 1,240,947	\$ -	\$ -	\$ -	\$ 267,933	\$ 351,232	\$ 1,860,112
Special Assessment Taxes	-	-	-	1,144	458,182	25,861	485,187
Sales Taxes	1,128,564	-	1,040,810	-	197,251	402,872	2,769,497
Licenses, Permits and Fees	103,787	-	-	-	-	-	103,787
Charges for Services	221,758	-	-	6,850	-	46,509	275,117
Intergovernmental	810,025	-	-	5,949,261	-	571,220	7,330,506
Fines, Forfeitures and Penalties	218,109	-	-	-	-	-	218,109
Interest	12,579	286	-	-	-	9,440	22,305
Miscellaneous	61,358	1,187	38,895	66,603	2,802	87,199	258,044
<b>Total Revenues</b>	<b>\$ 3,797,127</b>	<b>\$ 1,473</b>	<b>\$ 1,079,705</b>	<b>\$ 6,023,858</b>	<b>\$ 926,168</b>	<b>\$ 1,494,333</b>	<b>\$ 13,322,664</b>
<u>Expenditures:</u>							
Current:							
General Government	\$ 1,937,839	\$ -	\$ 92,926	\$ -	\$ 15,424	\$ 227,052	\$ 2,273,241
Public Safety	1,914,496	-	-	-	-	21,523	1,936,019
Public Works	565,919	-	22,615	-	-	514,427	1,102,961
Economic Development	-	126,171	-	-	-	87,850	214,021
Culture and Recreation	22,800	-	-	-	-	151,909	174,709
Conservation of Natural Resources	-	-	-	-	-	27,719	27,719
Health and Welfare	11,710	-	-	-	-	-	11,710
Other	19,572	-	-	-	-	-	19,572
Capital Outlay	-	-	8,645	12,159,816	-	-	12,168,461
Debt Service:							
Principal	59,534	-	-	-	785,000	19,051	863,585
Interest	14,706	-	-	-	230,161	8,503	253,370
<b>Total Expenditures</b>	<b>\$ 4,546,576</b>	<b>\$ 126,171</b>	<b>\$ 124,186</b>	<b>\$ 12,159,816</b>	<b>\$ 1,030,585</b>	<b>\$ 1,058,034</b>	<b>\$ 19,045,368</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (749,449)	\$ (124,698)	\$ 955,519	\$ (6,135,958)	\$ (104,417)	\$ 436,299	\$ (5,722,704)
<u>Other Financing Sources (Uses):</u>							
Sale of Capital Assets	\$ -	\$ -	\$ -	\$ -	\$ 25,509	\$ -	\$ 25,509
Transfers In	1,135,267	1,600,882	-	2,186,875	583,831	387,731	5,894,586
Transfers Out	(453,497)	(35,200)	(995,988)	(342,808)	(970,219)	(846,211)	(3,643,923)
<b>Total Other Financing Sources and Uses</b>	<b>\$ 681,770</b>	<b>\$ 1,565,682</b>	<b>\$ (995,988)</b>	<b>\$ 1,844,067</b>	<b>\$ (360,879)</b>	<b>\$ (458,480)</b>	<b>\$ 2,276,172</b>
<b>Net Change in Fund Balances</b>	<b>\$ (67,679)</b>	<b>\$ 1,440,984</b>	<b>\$ (40,469)</b>	<b>\$ (4,291,891)</b>	<b>\$ (465,296)</b>	<b>\$ (22,181)</b>	<b>\$ (3,446,532)</b>
Fund Balance - January 1	\$ 2,513,272	\$ 1,039,055	\$ 917,224	\$ 22,458,078	\$ 1,394,683	\$ 2,531,829	\$ 30,854,141
Fund Balance - December 31	\$ 2,445,593	\$ 2,480,039	\$ 876,755	\$ 18,166,187	\$ 929,387	\$ 2,509,648	\$ 27,407,609

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2012

Net Change in *Fund Balances* - Total Governmental Funds \$ (3,446,532)

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 outlays in the current period.

Current Year Capital Outlay	\$ 7,128,845	
Capital Contribution	38,856,041	
Current Year Depreciation Expense	<u>(1,971,792)</u>	44,013,094

In the statement of activities, only the loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the net effect of transactions involving capital assets (i.e., sales, trade-ins) is to decrease net position. (45,669)

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

Net Increase in Compensated Absences	\$ 53,132	
Net Increase in Retainage Payable	93,455	
Net Decrease in Interest Payable	<u>(5,030)</u>	141,557

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 debt repayment exceeded debt proceeds.

Repayment of Long-Term Debt		863,585
-----------------------------	--	---------

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

Decrease in Taxes Receivable	\$ (37,747)	
Decrease in Special Assessments Receivable	(697)	
Decrease in Uncertified Special Assessments Receivable	<u>239,897</u>	201,453

The net income of certain activities of the internal service fund is reported with governmental activities. (61,543)

Change in Net Position of Governmental Activities \$ 41,665,945

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2012

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds		
<b>ASSETS:</b>							
<u>Current Assets:</u>							
Cash and Investments	\$ 546,980	\$ 256,347	\$ 587,596	\$ 494,088	\$ 151,710	\$ 2,036,721	\$ 298,807
Utility Billings Receivable	38,709	25,807	35,310	108,432	3,478	211,736	-
Accounts Receivable	-	-	11,246	-	-	11,246	-
Intergovernmental Receivables	-	-	26,863	-	-	26,863	-
Prepaid Expense	-	-	-	-	-	-	29,512
Total Current Assets	<u>\$ 585,689</u>	<u>\$ 282,154</u>	<u>\$ 661,015</u>	<u>\$ 602,520</u>	<u>\$ 155,188</u>	<u>\$ 2,286,566</u>	<u>\$ 328,319</u>
<u>Noncurrent Assets:</u>							
<i>Capital Assets Not Being Depreciated</i>							
Land	\$ 122,184	-	\$ 17,151	\$ 78,954	-	\$ 218,289	-
Construction in Progress	857,355	-	259,326	401,669	-	1,518,350	-
<i>Capital Assets Being Depreciated</i>							
Buildings	-	-	1,711,120	82,449	-	1,793,569	-
Equipment and Vehicles	59,578	-	244,036	500,136	-	803,750	-
Infrastructure	18,961,941	-	4,873,668	8,501	-	23,844,110	-
Total Noncurrent Assets	<u>\$ 20,001,058</u>	<u>\$ -</u>	<u>\$ 7,105,301</u>	<u>\$ 1,071,709</u>	<u>\$ -</u>	<u>\$ 28,178,068</u>	<u>\$ -</u>
<b>Total Assets</b>	<u>\$ 20,586,747</u>	<u>\$ 282,154</u>	<u>\$ 7,766,316</u>	<u>\$ 1,674,229</u>	<u>\$ 155,188</u>	<u>\$ 30,464,634</u>	<u>\$ 328,319</u>
<b>LIABILITIES:</b>							
<u>Current Liabilities:</u>							
Accounts Payable	\$ 13,802	-	\$ 13,781	\$ 39,052	-	\$ 66,635	-
Accrued Interest Payable	-	12,542	-	-	1,219	13,761	-
Bonds Payable	-	-	-	-	65,000	65,000	-
Revenue Drawdown	-	160,000	-	-	-	160,000	-
Compensated Absences	14,891	-	14,478	20,370	-	49,739	-
IBNR Claims	-	-	-	-	-	-	62,000
Total Current Liabilities	<u>\$ 28,693</u>	<u>\$ 172,542</u>	<u>\$ 28,259</u>	<u>\$ 59,422</u>	<u>\$ 66,219</u>	<u>\$ 355,135.00</u>	<u>\$ 62,000</u>
<u>Noncurrent Liabilities:</u>							
Bonds Payable	-	-	-	-	\$ 130,000	\$ 130,000	-
Revenue Drawdown	-	2,850,000	-	-	-	2,850,000	-
Compensated Absences	34,749	-	33,783	47,531	-	116,063	-
Total Noncurrent Liabilities	<u>\$ 34,749</u>	<u>\$ 2,850,000</u>	<u>\$ 33,783</u>	<u>\$ 47,531</u>	<u>\$ 130,000</u>	<u>\$ 3,096,063</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<u>\$ 63,442</u>	<u>\$ 3,022,542</u>	<u>\$ 62,042</u>	<u>\$ 106,953</u>	<u>\$ 196,219</u>	<u>\$ 3,451,198</u>	<u>\$ 62,000</u>
<b>NET POSITION:</b>							
Net Investment in Capital Assets	\$ 20,001,058	-	\$ 7,105,301	\$ 1,071,709	-	\$ 28,178,068	-
Unrestricted	522,247	(2,740,388)	598,973	495,567	(41,031)	(1,164,632)	266,319
<b>Total Net Position</b>	<u>\$ 20,523,305</u>	<u>\$ (2,740,388)</u>	<u>\$ 7,704,274</u>	<u>\$ 1,567,276</u>	<u>\$ (41,031)</u>	<u>\$ 27,013,436</u>	<u>\$ 266,319</u>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds		
<u>Operating Revenues:</u>							
Charges for Services	\$ 724,832	\$ 286,605	\$ 512,074	\$ 1,459,987	\$ 53,965	\$ 3,037,463	\$ -
Contributions to Self Insurance	-	-	-	-	-	-	848,655
Total Operating Revenues	<u>\$ 724,832</u>	<u>\$ 286,605</u>	<u>\$ 512,074</u>	<u>\$ 1,459,987</u>	<u>\$ 53,965</u>	<u>\$ 3,037,463</u>	<u>\$ 848,655</u>
<u>Operating Expenses:</u>							
Operating Expenses	\$ 397,183	\$ -	\$ 467,318	\$ 514,824	\$ -	\$ 1,379,325	\$ -
Warwick Wells	36,318	-	-	-	-	36,318	-
Inert Landfill	-	-	-	47,834	-	47,834	-
Transfer Station	-	-	-	465,725	-	465,725	-
Health Insurance	-	-	-	-	-	-	916,610
Airport Lot Rent	8,334	-	8,334	6,666	-	23,334	-
Depreciation	455,411	-	583,514	83,613	-	1,122,538	-
Total Operating Expenses	<u>\$ 897,246</u>	<u>\$ -</u>	<u>\$ 1,059,166</u>	<u>\$ 1,118,662</u>	<u>\$ -</u>	<u>\$ 3,075,074</u>	<u>\$ 916,610</u>
Operating Income (Loss)	<u>\$ (172,414)</u>	<u>\$ 286,605</u>	<u>\$ (547,092)</u>	<u>\$ 341,325</u>	<u>\$ 53,965</u>	<u>\$ (37,611)</u>	<u>\$ (67,955)</u>
<u>Nonoperating Revenues (Expenses):</u>							
Investment Earnings	\$ 136	\$ -	\$ 136	\$ 136	\$ -	\$ 408	\$ 90
Intergovernmental	-	-	-	5,000	-	5,000	-
Sales and Use Tax	-	-	296,991	-	-	296,991	-
Other Nonoperating Revenues	75	-	11,503	546	-	12,124	6,322
Loss on Capital Assets	-	-	-	(79,551)	-	(79,551)	-
Interest Expense and Service Charges	-	(93,982)	-	-	(7,922)	(101,904)	-
Total Nonoperating Revenues (Expenses)	<u>\$ 211</u>	<u>\$ (93,982)</u>	<u>\$ 308,630</u>	<u>\$ (73,869)</u>	<u>\$ (7,922)</u>	<u>\$ 133,068</u>	<u>\$ 6,412</u>
Income (Loss) Before Contributions and Transfers	<u>\$ (172,203)</u>	<u>\$ 192,623</u>	<u>\$ (238,462)</u>	<u>\$ 267,456</u>	<u>\$ 46,043</u>	<u>\$ 95,457</u>	<u>\$ (61,543)</u>
Transfers In	\$ 496,189	\$ 180,000	\$ 259,326	\$ 498,884	\$ 29	\$ 1,434,428	\$ -
Transfers Out	(268,909)	(1,600,000)	(312,841)	(317,642)	-	(2,499,392)	-
Change in Net Position	<u>\$ 55,077</u>	<u>\$ (1,227,377)</u>	<u>\$ (291,977)</u>	<u>\$ 448,698</u>	<u>\$ 46,072</u>	<u>\$ (969,507)</u>	<u>\$ (61,543)</u>
Net Position - January 1	<u>\$ 20,468,228</u>	<u>\$ (1,513,011)</u>	<u>\$ 7,996,251</u>	<u>\$ 1,118,578</u>	<u>\$ (87,103)</u>	<u>\$ 27,982,943</u>	<u>\$ 327,862</u>
Net Position - December 31	<u>\$ 20,523,305</u>	<u>\$ (2,740,388)</u>	<u>\$ 7,704,274</u>	<u>\$ 1,567,276</u>	<u>\$ (41,031)</u>	<u>\$ 27,013,436</u>	<u>\$ 266,319</u>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended December 31, 2012

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds		
<b>Cash Flows from Operating Activities:</b>							
Receipts from Customers	\$ 728,789	\$ 286,301	\$ 513,348	\$ 1,465,252	\$ 53,948	\$ 3,047,638	\$ 849,664
Payments to Suppliers	(265,169)	-	(340,374)	(606,809)	-	(1,212,352)	(899,610)
Payments to Employees	(163,648)	-	(114,488)	(428,409)	-	(706,545)	-
Other Receipts	-	-	14,512	19,977	-	34,489	6,322
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 299,972</b>	<b>\$ 286,301</b>	<b>\$ 72,998</b>	<b>\$ 450,011</b>	<b>\$ 53,948</b>	<b>\$ 1,163,230</b>	<b>\$ (43,624)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>							
Transfers In	-	\$ 180,000	-	\$ 68,700	\$ 29	\$ 248,729	-
Operating Grant	-	-	-	5,000	-	5,000	-
Sales Tax	-	-	296,991	-	-	296,991	-
Transfers Out	(268,909)	(1,600,000)	(312,841)	(317,642)	-	(2,499,392)	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<b>\$ (268,909)</b>	<b>\$ (1,420,000)</b>	<b>\$ (15,850)</b>	<b>\$ (243,942)</b>	<b>\$ 29</b>	<b>\$ (1,948,672)</b>	<b>\$ -</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>							
Purchases and Construction of Capital Assets	-	-	-	\$ (143,080)	-	\$ (143,080)	-
Sale of Capital Assets	75	-	-	-	-	75	-
Principal Paid on Capital Debt	-	(155,000)	-	-	(60,000)	(215,000)	-
Interest and Fees Paid on Capital Debt	-	(94,950)	-	-	(7,500)	(102,450)	-
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>\$ 75</b>	<b>\$ (249,950)</b>	<b>\$ -</b>	<b>\$ (143,080)</b>	<b>\$ (67,500)</b>	<b>\$ (460,455)</b>	<b>\$ -</b>
<b>Cash Flows from Investing Activities:</b>							
Interest Income	\$ 136	-	\$ 136	\$ 136	-	\$ 408	\$ 90
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>\$ 31,274</b>	<b>\$ (1,383,649)</b>	<b>\$ 57,284</b>	<b>\$ 63,125</b>	<b>\$ (13,523)</b>	<b>\$ (1,245,489)</b>	<b>\$ (43,534)</b>
Cash and Cash Equivalents, January 1	\$ 515,706	\$ 1,639,996	\$ 530,312	\$ 430,963	\$ 165,233	\$ 3,282,210	\$ 342,341
Cash and Cash Equivalents, December 31	<u>\$ 546,980</u>	<u>\$ 256,347</u>	<u>\$ 587,596</u>	<u>\$ 494,088</u>	<u>\$ 151,710</u>	<u>\$ 2,036,721</u>	<u>\$ 298,807</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities							
Operating Income (Loss)	\$ (172,414)	\$ 286,605	\$ (547,092)	\$ 341,325	\$ 53,965	\$ (37,611)	\$ (67,955)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</b>							
Depreciation Expense	\$ 455,411	-	\$ 583,514	\$ 83,613	-	\$ 1,122,538	-
Non-operating revenues classified as cash inflows from operations	-	-	11,503	546	-	12,049	6,322
Change in Assets and Liabilities:							
Utility Billings Receivable	3,957	(304)	1,273	5,265	(17)	10,174	-
Intergovernmental Receivables	-	-	3,009	19,431	-	22,440	-
Prepaid Expense	-	-	-	-	-	-	1,009
Compensated Absences	16,187	-	14,452	5,958	-	36,597	-
Accounts Payable	(3,169)	-	6,339	(6,127)	-	(2,957)	-
IBNR Claims	-	-	-	-	-	-	17,000
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 299,972</b>	<b>\$ 286,301</b>	<b>\$ 72,998</b>	<b>\$ 450,011</b>	<b>\$ 53,948</b>	<b>\$ 1,163,230</b>	<b>\$ (43,624)</b>

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

---

---

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2012

---

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Devils Lake, North Dakota operates under a Home Rule Charter and various applicable sections in Title 40 of the North Dakota Century Code. The financial statements of the city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Devils Lake. 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Devils Lake 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 of Devils Lake.

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

COMPONENT UNIT

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

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

Devils Lake Airport Authority - The Devils Lake Airport Authority manages the local airport facility. The authority's five member board is appointed by the City Commission. The authority is fiscally dependent upon the city because the City Commission levies taxes and must approve any bond issuances. The authority is reported as a proprietary fund type.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All revenues are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the city.

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.

*Lake Region Growth Fund.* This fund accounts for resources used for loans to local businesses to provide economic growth.

*Infrastructure Fund.* This fund is used to account for financial resources used for the maintenance of the City of Devils Lake infrastructure.

*Capital Project Funds.* Capital projects funds are used to account for financial resources, including special assessments, to be used for the acquisition or construction of major capital facilities, (other than those financed by proprietary funds and trust funds).

*Debt Service Funds.* Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. Revenue sources in this fund are restricted solely for debt retirement.

The City reports the following major enterprise funds:

*Water Fund.* This fund accounts for the activity of the Water Department. The department operates the water distribution system in the City of Devils Lake.

*Water Source Replacement Fund.* This fund is used to account for financial resources to be used for replacement of water system infrastructure.

*Sewer Fund.* This fund accounts for the activities of the Sewer Department. This department operates the sewage treatment plant, sewage pumping stations and collection systems in the City of Devils Lake.

*Sanitation Fund.* This fund accounts for the activities of the garbage collection system within the City of Devils Lake.

Additionally, the city reports the following fund:

*Internal Service Fund.* This fund accounts for providing health insurance benefits provided to other departments of the City of Devils Lake on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water fund, Sewer fund, Sanitation fund, Water Source Replacement fund, and of the city's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, salaries, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

#### D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and certificates of deposit with maturities of less than 90 days.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

#### E. Capital Assets

Capital assets include property, plant and equipment. Capital assets are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and sanitation fund in the enterprise 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. General infrastructure assets acquired or constructed after July 1, 1980 are reported at historical cost or estimated historical cost.

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

---

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 with the following estimated useful lives:

Buildings and Improvements	50 years
Vehicles	7-10 years
Equipment	7 years
Infrastructure	20-50 years
Sewer Lines	50 years
Water Line	25 years
Roads - Asphalt	20 years
Roads - Concrete	30 years
Dike	40 years

F. Compensated Absences

Full-time employees are granted vacation benefits from 8 to 16 hours per month depending on tenure with the City. Upon termination of employment, employees will be paid for vacation benefits that have been accrued to a maximum of 240 hours and comp time earned up to a maximum of 32 hours if the employee’s starting date was as of July 1, 2010. If the terminated employee had a start date before July 1, 2010, the employee will be paid for vacation benefits that have been accrued to a maximum of 360 hours and comp time earned up to a maximum of 32 hours. Sick leave benefits accrue at the rate of 8 hours per month. Unused sick leave benefits are allowed to accumulate indefinitely. Upon termination of employment or retirement, unused sick leave will be paid at a rate of 25% of the employee’s regular pay rate for unused days.

G. Fund Balances and Net Position

Fund Balances:

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance spending priorities, minimum fund balance policies, and fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

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

***Minimum Fund Balance Policy, Budget Stabilization, & Replenishing Deficiencies***

It is the policy of the City of Devils Lake to maintain a minimum unassigned fund balance in the general fund of \$1,500,000. The unassigned general fund balance at 12-31-2012 was \$2,300,212. The minimum fund balance is designed to protect against cash flow shortfalls related to timing of projected revenues and to maintain a budget stabilization commitment.

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

When fund balance falls below the minimum 33% range, the City will replenish shortages/deficiencies using budget strategies and time frames described below:

- City will reduce recurring expenditures to eliminate any structural deficit, or;
- City will increase revenues or pursue other funding sources, or;
- Combination of the two options above;

Minimum fund balances shall be replenished within the following time periods:

- Deficiency resulting in minimum fund balance between 25% and 33% shall be replenished over a period not to exceed one year;
- Deficiency resulting in minimum fund balance between 20% and 25% shall be replenished over a period not to exceed three years;
- Deficiency resulting in minimum fund balance of less than 20% shall be replenished over a period not to exceed five years;

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

On March 11, 2010 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal periods that begin after June 15, 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid items, deferred expenditures, long-term receivables, & outstanding encumbrances.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, resources from granting agencies, debt covenants, taxes raised for a specific purpose, & construction programs.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Governing Board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, board induced city approved projects, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the business manager.	By city administrator action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance	Available for any remaining general fund expenditure.

The City of Devils Lake reports non-spendable fund balance, restricted fund balances, committed fund balance and unassigned fund balances at December 31, 2012.

Non-spendable fund balance is reported in the Lake Region Growth Fund for a loan receivable.

Restricted fund balances are reported for the debt service fund, capital project funds, and various functions within the special revenue funds for restricted tax levies, and amounts restricted by state and federal grants/contracts totaling.

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

Committed fund balance is reported in the city beautification fund and the asset forfeiture buy fund which were both committed by the governing board

Unassigned fund balances are reported for the remaining portion of the general fund and for negative fund balances reported in various capital projects funds and various special revenue funds.

**Net Position:**

The City of Devils Lake implemented the provisions of GASB 63 ‘Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position’ during the year ended December 31, 2012. Prior to GASB 63, equity in the statement of net assets was reported in the applicable categories of net assets. Under the provisions of GASB 63, the net assets statement was changed to the statement of net position, and net assets equity was changed to net position. GASB 63 didn’t change how net position is calculated into the 3 primary categories as outlined in further detail below.

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

Net investment in capital assets is reported for capital assets less accumulated depreciation, and any related debt used to finance the purchase or construction of those capital assets. These assets are not available for future spending.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements. Net position in the statement of net position is also shown by primary function (as fund balance are shown) as fund balances are shown and is restricted for debt service, capital projects, general government, public safety, public works, emergencies, economic development/job development, culture and recreation, and conservation of natural resources..

Unrestricted net position is primarily unrestricted amounts related to the general fund and enterprise funds and business-type activities, as well as amounts reclassified for negative cash balances from the capital project funds. The unrestricted net position is available to meet the district’s ongoing obligations.

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

**BUDGET AMENDMENTS**

The city’s governing board approved the following amendments to the city budget:

	REVENUES/TRANSFERS IN		
	Original Budget	Amendment	Amended Budget
<b><u>Major Funds:</u></b>			
General Fund - Revenues	\$4,510,807	\$ 452,233	\$4,963,040
Infrastructure Fund	1,050,000	38,895	1,088,895
Lake Region Growth Fund	267,324	1,370,868	1,638,192
Debt Service Fund	1,193,681	354,575	1,548,256
Capital Projects Fund	-	8,210,735	8,210,735
<b><u>Internal Service Fund</u></b>			
Self-Insurance	825,000	30,066	855,066
<b><u>Non-Major Funds:</u></b>			
Non-Major Special Revenue	1,511,536	327,614	1,884,150

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
<b>Major Funds:</b>			
General Fund- Expenditures	\$4,512,291	\$ 487,783	\$5,000,074
Lake Region Growth	169,188	1,991,992	2,161,170
Infrastructure Fund	1,048,626	71,548	1,120,174
Debt Service Fund	1,194,718	809,043	2,003,761
Capital Projects Fund	-	7,395,266	7,395,266
<b>Non-Major Funds:</b>			
Non-Major Special Revenue	1,352,686	572,028	1,924,714
<b>Internal Service Fund:</b>			
Self-Insurance Fund	825,000	74,611	899,611

**NOTE 3: DEPOSITS**

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

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

At year ended December 31, 2012, the City's carrying amount of deposits was \$11,417,852 and the bank balances totaled \$11,570,974. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. Of the bank balances, \$3,631,016 was not collateralized with securities since the funds are held at the Bank of North Dakota, which does not carry FDIC insurance and is not required to provide security pledges. The remaining bank balance of \$7,439,958 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:

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

As of December 31, 2012, the city held certificates of deposit totaling \$1,814,878.

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

---

**NOTE 4: DEPOSIT WITH FISCAL AGENT**

The off book levee escrow account received funds from the State Water Commission for future levee construction expenses. The account had twenty one million dollars withdrawn from the account as of December 31, 2012. Of the amount withdrawn, only a portion of it was actually spent by the Corps of Engineers during this period ending December 31, 2012. The remaining amount of \$16,137,751 is classified as a deposit due to the fact that it will be held by the Corps of Engineers until it is expended in future years for the embankment raise.

**NOTE 5: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts on open account from individuals for goods and services furnished by the city in the enterprise funds. No allowance has been established for estimated uncollectible accounts receivable.

**NOTE 6: UTILITY BILLINGS RECEIVABLE**

Utility billings receivable consists of amounts due from citizens on open account for water, sewer and garbage services furnished by the city. No allowance has been established for uncollectible utility billings receivable.

**NOTE 7: TAXES RECEIVABLE**

The taxes receivable represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

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

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

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

**NOTE 8: SPECIAL ASSESSMENTS RECEIVABLE**

Special assessments receivable consists of uncollected special assessments due the City at December 31 and uncertified special assessments, which represents a long-term receivable in the financial statements. No allowance has been established for uncollectible special assessments.

**NOTE 9: LONG-TERM SPECIAL ASSESSMENTS RECEIVABLE**

Uncertified special assessments represent a long-term receivable in the financial statements. No allowance has been established for uncollectible long-term special assessments receivable.

**NOTE 10: INTERGOVERNMENTAL RECEIVABLE**

Intergovernmental receivables consist of reimbursements due from various governments for city sales tax, hospitality tax, grants and other aid.

**CITY OF DEVILS LAKE**

## Notes to the Financial Statements – Continued

**NOTE 11: PREPAID EXPENSE**

Prepaid expense is reported in the internal service fund totaling \$29,512 and in the net position statement for a negative payroll liability amount (overpayment for benefits).

**NOTE 12: LOANS RECEIVABLE**

The city provides loans and grants to businesses for either startup costs or expansion costs. The Community Development Corporation (CDC) receives applications from various businesses. The CDC screens the applications then brings the applications to the governing board that either approves or denies the application. The city sets up a payment schedule with interest for the loans to be repaid. No allowance for doubtful loans has been set up as the city expects to collect 100%. The activity and balances related to these loans are reported in the Lake Region Growth Fund. The city has the following loan activity for the year ended December 31, 2012.

<b>Entity</b>	<b>Balance 1-1-12</b>	<b>Issued</b>	<b>Payments</b>	<b>Balance 12-31-12</b>
Dennis Deutsch- Mini Mall	\$ 27,296	\$ -	\$27,296	\$ -
DL Aero Service- Tanner S.	9,673	-	2,767	6,906
Pugsley's	86,051	-	-	86,051
Goldade Processing	34,498	-	227	34,271
Black Magic Rod & Custom	6,667	-	-	6,667
Jason Mitchell	10,224	-	2,720	7,504
Flatlander Foods Inc.	90,000	-	2,826	87,174
Ultra Green Packaging	-	2,000,000	-	2,000,000
<b>Totals</b>	<b>\$264,409</b>	<b>\$2,000,000</b>	<b>\$35,836</b>	<b>\$2,228,573</b>

**NOTE 13: ADVANCES DUE TO/FROM**

The city has inter-fund loans receivable (shown as advances due to/from on the government wide balance sheet) due to the General Fund from the Airport Hanger and the Sales and Use Tax funds. The balances and payments are shown on the table below:

<b>Fund</b>	<b>Balance 1-1-12</b>	<b>Issued</b>	<b>Payments</b>	<b>Balance 12-31-12</b>
Airport Hanger	\$113,102	\$ -	\$20,469	\$ 92,633
Sales and Use Tax	76,905	-	24,157	52,748
<b>Totals</b>	<b>\$190,007</b>	<b>\$ -</b>	<b>\$44,626</b>	<b>\$145,381</b>

The advance to the debt service fund represents the amount that the general fund loaned for the Lemna project. This is being paid back from the Lake Region Growth Fund. An advance from the general fund in the debt service fund offsets this.

The advance to the special revenue fund represents the amount that the general fund loaned for the airport hangar. This is being paid back from funds received from Devils Lake Aero and from the Lake Region Growth Fund. An advance from the general fund in the special revenue fund offsets this.

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

**NOTE 14: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2012:

<b>PRIMARY GOVERNMENT: Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 12-31-12</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 2,388,146	\$ 891,411	\$ 20,014	\$ -	\$ 3,259,543
Construction in Progress	77,620,518	44,433,970	-	-	122,054,488
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 80,008,664</b>	<b>\$45,325,381</b>	<b>\$ 20,014</b>	<b>\$ -</b>	<b>\$125,314,031</b>
<i>Capital assets being depreciated:</i>					
Buildings	\$ 3,279,219	\$ -	\$ -	\$ -	\$ 3,279,219
Equipment	3,787,067	219,320	159,679	15,887	3,862,595
Infrastructure	68,260,867	440,185	-	-	68,701,052
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 75,327,153</b>	<b>\$ 659,505</b>	<b>\$159,679</b>	<b>\$15,887</b>	<b>\$ 75,842,866</b>
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 2,016,159	\$ 84,891	\$ -	\$ -	\$ 2,101,050
Equipment	2,714,002	235,503	134,024	15,887	2,831,368
Infrastructure	27,864,929	1,651,398	-	-	29,516,327
<b>Total Accumulated Depreciation</b>	<b>\$ 32,595,090</b>	<b>\$ 1,971,792</b>	<b>\$134,024</b>	<b>\$15,887</b>	<b>\$ 34,448,745</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 42,732,063</b>	<b>\$ (1,312,287)</b>	<b>\$ 25,655</b>	<b>\$ -</b>	<b>\$ 41,394,121</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$122,740,727</b>	<b>\$44,013,094</b>	<b>\$ 45,669</b>	<b>\$ -</b>	<b>\$166,708,152</b>

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

<b>Function:</b>	<b>Total</b>
General Government	\$ 32,783
Public Safety	174,440
Public Works	77,631
Infrastructure	1,651,398
Culture/Recreation	35,540
<b>Total</b>	<b>\$1,971,792</b>

<b>BUSINESS TYPE: Enterprise Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>Balance 12-31-12</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 185,920	\$ 32,369	\$ -	\$ -	\$ 218,289
Construction in Progress	10,453,709	1,144,685	-	(10,080,045)	1,518,349
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$10,639,629</b>	<b>\$1,177,054</b>	<b>\$ -</b>	<b>\$(10,080,045)</b>	<b>\$ 1,736,638</b>
<i>Capital assets being depreciated:</i>					
Buildings	\$ 6,055,826				\$ 6,055,826
Equipment	2,799,369	143,080	138,351	(15,887)	2,788,211
Infrastructure	24,318,927	8,645	-	10,080,045	34,407,617
<b>Total Capital Assets, Being Depreciated</b>	<b>\$33,174,122</b>	<b>\$ 151,725</b>	<b>\$138,351</b>	<b>\$ 10,064,158</b>	<b>\$43,251,654</b>
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 4,017,705	\$ 244,552	\$ -	\$ -	\$ 4,262,257
Equipment	1,911,533	147,614	58,799	(15,887)	1,984,461
Infrastructure	9,833,135	730,371	-	-	10,563,506
<b>Total Accumulated Depreciation</b>	<b>\$15,762,373</b>	<b>\$1,122,537</b>	<b>\$ 58,799</b>	<b>\$ (15,887)</b>	<b>\$16,810,224</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$17,411,749</b>	<b>\$ (970,812)</b>	<b>\$ 79,552</b>	<b>\$ 10,080,045</b>	<b>\$26,441,430</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$28,051,378</b>	<b>\$ 206,242</b>	<b>\$ 79,552</b>	<b>\$ -</b>	<b>\$28,178,068</b>

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

Depreciation expense of \$455,411, \$83,612, and \$583,514 was charged to the water fund, sanitation fund, and sewer fund, respectively, for a total of \$1,122,537.

<b>COMPONENT UNIT:</b>	<b>Balance</b>				<b>Balance</b>
<b>Airport:</b>	<b>1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Transfers</b>	<b>12-31-12</b>
<i>Capital assets not being depreciated:</i>					
Land	\$ 294,933	\$ 105,656	\$ -	\$ -	\$ 400,589
Construction in Progress	6,187,294	2,316,497	-	(5,650,642)	2,853,149
<b>Total Capital Assets, Not Being Depreciated</b>	<b>\$ 6,482,227</b>	<b>\$2,422,153</b>	<b>\$ -</b>	<b>\$(5,650,642)</b>	<b>\$ 3,253,738</b>
<i>Capital assets being depreciated:</i>					
Buildings	\$ 2,007,740	\$ -	\$ -	\$ -	\$ 2,007,740
Equipment	1,460,371	10,759	-	-	1,471,130
Infrastructure	5,206,841	-	-	5,650,642	10,857,483
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 8,674,952</b>	<b>\$ 10,759</b>	<b>\$ -</b>	<b>\$ 5,650,642</b>	<b>\$14,336,353</b>
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 170,189	\$ 40,155	\$ -	\$ -	\$ 210,344
Equipment	1,295,802	52,938	-	-	1,348,740
Infrastructure	3,244,400	61,729	-	-	3,306,129
<b>Total Accumulated Depreciation</b>	<b>\$ 4,710,391</b>	<b>\$ 154,822</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,865,213</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>\$ 3,964,561</b>	<b>\$ (144,063)</b>	<b>\$ -</b>	<b>\$ 5,650,642</b>	<b>\$ 9,471,140</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$10,446,788</b>	<b>\$2,278,090</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$12,724,878</b>

**NOTE 15: ACCOUNTS PAYABLE**

Accounts payable consists of amounts owed to individuals and to entities for goods received and services rendered prior to December 31, 2012.

**NOTE 16: DUE TO/FROM OTHER FUNDS**

Due to/from other funds represents the amount of negative cash in the fire department homeland security grant (\$8,847) covered by the general fund.

**NOTE 17: TRANSFERS**

The following is reconciliation between cash transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2012:

<b>Government Funds:</b>	<b>Transfer In</b>	<b>Transfer Out</b>
General Fund	\$1,135,267	\$ 453,497
Lake Region Growth Fund	1,600,882	35,200
Infrastructure	-	995,988
Capital Project Funds	2,186,875	342,808
Debt Service Funds	583,831	970,219
<b>Total Major Funds</b>	<b>5,506,855</b>	<b>2,797,712</b>
Non-Major Special Rev.	387,731	846,211
<b>Total Government Funds</b>	<b>\$5,894,586</b>	<b>\$3,643,923</b>
<b>Enterprise Funds:</b>	<b>Transfer In</b>	<b>Transfer Out</b>
Water Fund	\$ -	\$ 268,909
Water Source Replacement	180,000	1,600,000
Sewer Fund	-	312,841
Sanitation Fund	68,700	317,642
<b>Total Major Ent. Funds</b>	<b>-</b>	<b>2,499,392</b>
<b>Total Non-Major Ent. Funds</b>	<b>\$ 29</b>	<b>\$ -</b>
<b>Total Enterprise Funds</b>	<b>\$ 248,729</b>	<b>\$2,499,392</b>
<b>Total Transfers</b>	<b>\$6,143,315</b>	<b>\$6,143,315</b>

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

**NOTE 18: IBNR CLAIMS**

Claims which have been incurred at year-end, but not reported, have been recorded as a claims payable in the amount of \$62,000. Blue Cross/Blue Shield, the plan administrator, has calculated this reserve requirement.

**NOTE 19: DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes uncollected special assessments, and long-term uncertified special assessments in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes and road accounts receivable are measurable but not available.

**NOTE 20: LONG-TERM LIABILITIES**

During the year ended December 31, 2012, the following changes occurred in long-term liabilities of the city:

**PRIMARY GOVERNMENT**

<b>Governmental Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Sales Tax Revenue Bond	\$ 2,500,000	\$ -	\$100,000	\$2,400,000	\$ 105,000
Special Assessment Bonds	6,785,000	-	685,000	6,100,000	775,000
Capital Leases	420,626	-	78,585	342,041	81,143
Compensated Absences *	436,664	-	53,132	383,532	115,060
<b>Total Governmental Activities</b>	<b>\$10,142,290</b>	<b>\$ -</b>	<b>\$916,717</b>	<b>\$9,225,573</b>	<b>\$1,076,203</b>

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

<b>Business-Type Activities:</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Revenue Bond Drawdowns	\$3,165,000	\$ -	\$155,000	\$3,010,000	\$160,000
Landfill Closer Bonds	255,000	-	60,000	195,000	65,000
Compensated Absences *	129,204	36,598	-	165,802	49,740
<b>Total Governmental Activities</b>	<b>\$3,549,204</b>	<b>\$36,598</b>	<b>\$215,000</b>	<b>\$3,370,802</b>	<b>\$274,740</b>

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

**Component Unit – Airport Authority:**

<b>Component Unit-Airport</b>	<b>Balance 1-1-12</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-12</b>	<b>Due Within One Year</b>
Compensated Absences *	\$28,972	\$7,195	\$ -	\$36,167	\$3,617

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

**Governmental Activities:**

**Sales Tax Revenue Bond:**

\$2,500,000 of Sales Tax Revenue Bonds issued with a 2.5% interest rate. Installments range from \$100,000 to \$170,000 through 2030.

\$2,400,000

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

**Special Assessment Bonds:**

\$2,695,000 Refunding Improvement Bonds of 2006, Series A, due in annual installments of \$65,000 to \$255,000 through 2022; interest at 4.0% to 4.25%.	\$ 360,000
\$2,370,000 Refunding Improvement Bonds Series 2010A, due in annual installments of \$220,000 to \$355,000 through 2018; interest at 1.0% to 2.40%.	1,670,000
\$3,920,000 Refunding Improvement Bonds Series 2011A, due in annual installments of \$175,000 to \$460,000 through 2027; interest at .5% to 3.0%.	3,920,000
\$655,000 Refunding Improvement Serial Bonds of 2008, Series A due in annual installments of \$70,000 to \$80,000 through 2017; interest at 3.40% to 3.65%.	<u>150,000</u>
Total Special Assessment Bonds	<u>\$6,100,000</u>

**Capital Leases:**

\$100,000 Capital Lease for a John Deere Motor Grader. The lease is for 5 years at a 4.75% interest rate. Last payment due in 2014.	\$ 40,862
\$525,000 Capital Lease for a Spartan Platform Fire Truck. The lease is for 10 years at a 4.25% interest rate. Last payment due in 2017.	<u>301,179</u>
Total Capital Leases	<u>\$ 342,041</u>

**Business-Type (Enterprise) Funds/Activities:**

**Water Fund Revenue Drawdowns:**

\$3,800,000 of Revenue Bonds were issued with a 2.5% interest rate. Installments range from \$155,000 to \$260,000 through 2027.	<u>\$3,010,000</u>
--	--------------------

**Landfill Closure Bonds:**

\$1,076,423 of 1994 Landfill Closure Revenue Bonds due in annual installments of \$60,000 to \$65,000 through 2015; interest at 2.5%.	<u>\$ 195,000</u>
---	-------------------

The annual debt service requirements for all long-term debt outstanding, except compensated absences as of December 31, 2012, are as follows:

**Governmental Activities:**

GOVERNMENTAL ACTIVITIES						
Year Ending December 31	Sales Tax Bonds		Special Assessment Bonds		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 105,000	\$ 60,000	\$ 775,000	\$143,290	\$ 82,048	\$14,091
2014	105,000	57,375	810,000	109,936	85,664	10,475
2015	110,000	54,750	780,000	79,215	67,540	6,700
2016	110,000	52,000	590,000	70,900	70,442	3,799
2017	115,000	49,250	580,000	62,270	36,347	772
2018 - 2022	630,000	201,375	1,635,000	200,940	-	-
2023 - 2027	730,000	117,625	930,000	67,088	-	-
2028 - 2032	495,000	25,000	-	-	-	-
<b>TOTAL</b>	<b>\$2,400,000</b>	<b>\$617,375</b>	<b>\$6,100,000</b>	<b>\$733,639</b>	<b>\$342,041</b>	<b>\$35,837</b>

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

Business-Type Activities:

<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Year Ending December 31</b>	<b>Revenue Bonds</b>		<b>Water Drawdown</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2013	\$ 160,000	\$ 75,250	\$ 65,000	\$4,875
2014	165,000	71,250	65,000	3,250
2015	170,000	67,125	65,000	1,625
2016	175,000	62,875	-	-
2017	180,000	58,500	-	-
2018 - 2022	995,000	221,750	-	-
2023 - 2027	1,165,000	89,875	-	-
<b>TOTAL</b>	<b>\$3,010,000</b>	<b>\$646,625</b>	<b>\$195,000</b>	<b>\$9,750</b>

**NOTE 21: OPERATING LEASES**

**Operating Lease** - The City leased a copier under a non-cancelable operating lease through Advanced Business Methods for a 36 month lease at \$232 per month. The Library (Component Unit) leased a copier from General Electric Capital Corporation for 60 months at \$45.41. Operating lease payments totaled \$2,784 for the city and \$545 for the library during 2012. The future minimum lease payments for both leases are as follows:

<b>City of Devils Lake / Component Unit- Library</b>		
<b>Year Ending December 31</b>	<b>Total Payments</b>	
	<b>City</b>	<b>Library</b>
2013	\$2,552	\$ 545
2014	-	545
2015	-	409
<b>TOTAL</b>	<b>\$2,552</b>	<b>\$1,499</b>

**NOTE 22: DEFERRED COMPENSATION PLAN**

The City offers its employees a retirement plan under deferred compensation plans created in accordance with Internal Revenue Code Section 457. The main provider of these plans is through Nationwide Retirement Solutions. The city contributes 8% of employee's salaries into the plan. The city and employees may contribute up to \$17,000 of the employee's salary to the plan. The city's contribution to the plan for the years ending December 31, 2012, 2011 and 2010 were \$218,307, \$215,257, and, \$208,390, respectively, equal to the required contributions for the year.

The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

**NOTE 23: CONDUIT DEBT**

**Municipal Industrial Development Bonds:**

From time to time, the city has issued Municipal Industrial Development (MIDA) Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by property financed and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issue. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there is one issuance of MIDA Bonds outstanding with an original principal value issued of \$6,770,000. The aggregate principal amount currently payable for the series 1998 MIDA bond is \$4,405,000.

**Community Development Block Grants:**

From time to time, the city has obtained Community Development Block Grants (CBDG) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The grants are secured by property financed and are payable solely from the payments received on the underlying mortgage grants. Upon repayment of the grants, ownership of the acquired facilities transfers to the private-sector entity served by the grant. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the grants. Accordingly, the grants are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there were 3 CDBG loans outstanding, with an aggregate principal amount payable of \$213,638.

**NOTE 24: RISK MANAGEMENT**

The City of Devils Lake is exposed to various risks of loss related 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 two million dollars per occurrence for general liability and automobile coverage and to \$3,778,698 for public assets (mobile equipment and portable property) coverage, and also for governance liability of two million dollars per occurrence. The Devils Lake Airport Authority, a component unit, has coverage of one million dollars per occurrence for general liability and automobile. The Airport Authority also has two million dollars in coverage for personal injury and malpractice per occurrence with the Old Republic Insurance Company.

The City of Devils Lake 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 one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$2,000,000 for the city employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has workers compensation with the North Dakota Workforce, Safety and Insurance.

The city has retained risk for employee health insurance up to a maximum of \$100,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

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

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

**NOTE 25: SEGMENT INFORMATION – PROPRIETARY FUNDS**

The City of Devils Lake issued revenue bonds to finance costs in connection with the closure of its landfill. The city has established a separate fund to account for activities related to this bond issue. Summary financial information for the Landfill Closure Fund for the year ended December 31, 2012, is as follows:

<b>CONDENSED STATEMENT OF NET POSITION</b>	
<u>Assets:</u>	
Restricted Assets-Cash	\$ 151,710
Restricted Assets- Utility Rec.	3,478
<u>Liabilities:</u>	
Current Liabilities	(66,219)
Non-Current Liabilities	(130,000)
Total Liabilities	\$(196,219)
<u>Net Position:</u>	
Unrestricted	\$ (41,031)

<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	
Charges for Services	\$ 53,965
Operating Expense	-
Operating Income	\$ 53,965
<u>Non-operating Expenses:</u>	
Interest & Fees Expense	\$ (7,922)
Transfer In	29
Change in Net Position	\$ 46,072
Net Position - January 1	\$(87,103)
Net Position - December 31	\$(41,031)

<b>CONDENSED STATEMENT OF CASH FLOWS</b>	
<u>Net cash provided (used) by:</u>	
Operating activities	\$ 53,948
Noncapital financing activities	29
Other financing activities	(67,500)
Net increase (decrease)	\$ (13,523)
Beginning Cash	\$165,233
Ending Cash	\$151,710

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

**NOTE 26: FUND DEFICITS**

The following individual funds were in a deficit position at December 31, 2012:

<b>Fund</b>	<b>Amount</b>
Fire Department Homeland Security Grant	\$ (10,738)
Water Supply Construction	(165,862)
Flood Protection 1-96	(739,731)
Safe Routes to School	(31,035)
Fish Cleaning Station	(17,752)
Henegar Landing Step	(835)
Storm Sewer Improvement #09-08 (5th Ave.)	(97,861)
Water & Sewer - Stone Ridge	(21,318)
Water & Sewer - Applebee's	(485)
Street Improvement 44-12 - 22nd St. NE	(416,497)
Street Improvement 45-12 - 3rd St. NE	(174,343)
Street Improvement 45-13 - 10th Ave. NE	(177,856)
Street Improvement 46-12 - Elkhorn	(8,698)

The city will relieve the deficits in the construction funds with future special assessment collections. The remaining fund deficits will be relieved with future tax collections and transfers.

**NOTE 27: CONSTRUCTION COMMITMENTS**

The City of Devils Lake had the following open construction contracts on various projects with balances owing at December 31, 2012:

Governmental Activities:

<b>Project</b>	<b>Original Contract</b>	<b>Change Orders</b>	<b>Total Contract</b>	<b>Total Completed</b>	<b>Remaining Balance</b>	<b>Retainage</b>
Golf Course Realignment	\$ 1,385,000	\$100,804	\$ 1,485,804	\$ 1,459,402	\$ 26,402	\$ 24,216
Street Improvement #35-10	161,734	9,514	171,248	164,924	6,324	3,094
Street Improvement #42-12	496,778	98,017	594,795	594,795	-	9,936
Street Improvement #44-12	349,232	278	349,510	345,630	3,880	7,054
Water, Sewer, Street Imp #50-11	706,023	5,438	711,461	711,461	-	14,520
Water, Sewer, Street Imp #51-11	596,299	-	596,299	447,224	149,075	110,716
<b>Totals</b>	<b>\$10,148,333</b>	<b>\$307,661</b>	<b>\$10,455,994</b>	<b>\$10,270,313</b>	<b>\$185,681</b>	<b>\$ 169,536</b>

Component Unit Activities:

<b>Project</b>	<b>Original Contract</b>	<b>Change Orders</b>	<b>Total Contract</b>	<b>Total Completed</b>	<b>Remaining Balance</b>	<b>Retainage</b>
Airport #27	\$ 736,842	\$ (76,833)	\$ 660,009	\$ 658,787	\$ 1,222	\$ -
Airport #29	2,447,988	12,647	2,460,635	1,706,997	753,638	-
Airport #30	8,630,329	3,436	8,633,765	673,926	7,959,840	-
<b>Totals</b>	<b>\$11,815,159</b>	<b>\$ (60,750)</b>	<b>\$11,754,409</b>	<b>\$3,039,710</b>	<b>\$8,714,700</b>	<b>\$ -</b>

**CITY OF DEVILS LAKE**

Notes to the Financial Statements – Continued

---

**NOTE 28: RELATED PARTY TRANSACTION**

The City of Devils Lake is involved with a related party that existed as of December 31, 2012. The nature of the relationship involved the City of Devils Lake and the City Administrator whom had a proportioned ownership status in Flatlander Foods Inc. Flatlander Foods had loan requests from North Central Planning Council (Which uses City of Devils Lake as a conduit) and Forward Devils Lake (economic development entity) that were in total to be \$360,000. The City of Devils Lake was responsible to contribute \$90,000 (60 month amortization schedule at 3% interest) which was paid from the City Growth Fund to Forward Devils Lake entity. The remaining \$270,000 was further split between the North Central Planning Council (\$180,000) and the North Dakota Development Fund (\$90,000).

**NOTE 29: SUBSEQUENT EVENT**

On July 29, 2013, the Devils Lake City Commission authorized the issuance of \$1,355,000 refunding improvement bonds series 2013A. The proceeds will be used for various projects chosen by the governing board.

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 1,085,011	\$ 1,253,442	\$ 1,240,947	\$ (12,495)
Sales Taxes	988,000	1,140,000	1,128,564	(11,436)
Licenses, Permits and Fees	85,000	103,708	103,787	79
Charges for Services	184,100	218,960	221,758	2,798
Intergovernmental	483,500	775,348	810,025	34,677
Fines, Forfeitures and Penalties	221,700	218,109	218,109	-
Interest	30,000	2,309	12,579	10,270
Miscellaneous	68,000	59,357	61,358	2,001
<b>Total Revenues</b>	<b>\$ 3,145,311</b>	<b>\$ 3,771,233</b>	<b>\$ 3,797,127</b>	<b>\$ 25,894</b>
<u>Expenditures:</u>				
Current:				
General Government	\$ 1,617,820	\$ 1,921,175	\$ 1,937,839	\$ (16,664)
Public Safety	1,824,783	1,914,495	1,914,496	(1)
Public Works	605,828	565,919	565,919	-
Health and Welfare	10,300	11,710	11,710	-
Culture & Recreation	16,800	22,800	22,800	-
Other	16,000	19,572	19,572	-
Debt Service:				
Principal	57,081	59,534	59,534	-
Interest	17,159	14,706	14,706	-
<b>Total Expenditures</b>	<b>\$ 4,165,771</b>	<b>\$ 4,529,911</b>	<b>\$ 4,546,576</b>	<b>\$ (16,665)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (1,020,460)</b>	<b>\$ (758,678)</b>	<b>\$ (749,449)</b>	<b>\$ 9,229</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 1,075,963	\$ 1,191,807	\$ 1,135,267	\$ (56,540)
Transfers Out	(72,751)	(470,163)	(453,497)	16,666
<b>Total Other Financing Sources and Uses</b>	<b>\$ 1,003,212</b>	<b>\$ 721,644</b>	<b>\$ 681,770</b>	<b>\$ (39,874)</b>
<b>Net Change in Fund Balances</b>	<b>\$ (17,248)</b>	<b>\$ (37,034)</b>	<b>\$ (67,679)</b>	<b>\$ (30,645)</b>
<b>Fund Balances - January 1</b>	<b>\$ 2,513,272</b>	<b>\$ 2,513,272</b>	<b>\$ 2,513,272</b>	<b>\$ -</b>
<b>Fund Balances - December 31</b>	<b>\$ 2,496,024</b>	<b>\$ 2,476,238</b>	<b>\$ 2,445,593</b>	<b>\$ (30,645)</b>

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

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE  
LAKE REGION GROWTH FUND  
For the Year Ended December 31, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest Income	\$ 2,000	\$ 286	\$ 286	-
Miscellaneous	20,324	37,024	1,187	(35,837)
<b>Total Revenues</b>	<b>\$ 22,324</b>	<b>\$ 37,310</b>	<b>\$ 1,473</b>	<b>\$ (35,837)</b>
<u>Expenditures:</u>				
<u>Current:</u>				
Economic Development	\$ 133,988	\$ 2,126,170	\$ 126,171	\$ 1,999,999
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ (111,664)</b>	<b>\$ (2,088,860)</b>	<b>\$ (124,698)</b>	<b>\$ 1,964,162</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 187,000	\$ 1,600,882	\$ 1,600,882	-
Transfers Out	(47,200)	(35,200)	(35,200)	-
<b>Total Other Financing Sources and Uses</b>	<b>\$ 139,800</b>	<b>\$ 1,565,682</b>	<b>\$ 1,565,682</b>	<b>\$ -</b>
<b>Net Change in Fund Balances</b>	<b>\$ 28,136</b>	<b>\$ (523,178)</b>	<b>\$ 1,440,984</b>	<b>\$ 1,964,162</b>
<b>Fund Balances - January 1</b>	<b>\$ 1,039,055</b>	<b>\$ 1,039,055</b>	<b>\$ 1,039,055</b>	<b>\$ -</b>
<b>Fund Balances - December 31</b>	<b>\$ 1,067,191</b>	<b>\$ 515,877</b>	<b>\$ 2,480,039</b>	<b>\$ 1,964,162</b>

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

---

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2012

---

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 1st, the board adopts the final budget.
- The final budget must be filed with the county auditor by the meeting in October (October 10<sup>th</sup>).
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue 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 proceedings of the board.
- All annual appropriations lapse at year-end.

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)  
For the Year Ended December 31, 2012

	Balance 1-1-12	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-12
<b>GENERAL FUND</b>	\$ 2,007,590.74	\$ 3,772,879.90	\$1,190,162.13	\$ -	\$ 453,497.12	\$ 4,546,575.73	\$ 1,970,559.92
<b>MAJOR SPECIAL REVENUE FUNDS:</b>							
LAKE REGION GROWTH	\$ 774,644.91	\$ 37,310.31	\$1,600,881.83	\$ -	\$ 35,200.00	\$ 2,126,170.65	\$ 251,466.40
INFRASTRUCTURE	812,669.58	1,088,894.63	-	-	995,987.50	124,186.05	781,390.66
<b>TOTAL MAJOR SPECIAL REVENUE FUNDS</b>	<b>\$ 1,587,314.49</b>	<b>\$ 1,126,204.94</b>	<b>\$1,600,881.83</b>	<b>\$ -</b>	<b>\$1,031,187.50</b>	<b>\$ 2,250,356.70</b>	<b>\$ 1,032,857.06</b>
<b>MAJOR CAPITAL PROJECTS FUNDS:</b>							
WATER SUPPLY CONSTRUCTION (Major)	\$ (247,911.92)	\$ 32,792.20	\$ 350,000.00	\$ -	\$ -	\$ 300,742.76	\$ (165,862.48)
FLOOD PROTECTION 1-96	(2,469,001.03)	5,566,810.00	400,000.00	-	129,585.95	4,107,954.10	(739,731.08)
SAFE ROUTE TO SCHOOL - 12TH AVE	(37,885.71)	6,850.69	-	-	-	-	(31,035.02)
FISH CLEANING STATION	-	39,459.56	-	-	354.98	56,856.52	(17,751.94)
HENEGAR LANDING STEP	-	18,301.76	-	-	-	19,136.50	(834.74)
ROOSEVELT PARK ROAD	-	85,913.71	10,012.64	-	-	95,926.35	-
LANDFILL EXPANSION	-	150,000.00	351,751.02	-	-	421,539.14	80,211.88
STR IMPR 35-10	(10,970.74)	-	10,970.74	-	-	-	-
STR IMPR 42-12 - 7TH ST NE	-	389.93	139,408.15	-	15,407.78	124,390.30	-
STORM SEWER IMPR #09-08 (5TH AVE)	(97,861.58)	-	-	-	-	-	(97,861.58)
WATER & SEWER - STONE RIDGE	481,095.18	122,587.00	205,535.00	-	90,232.64	740,302.67	(21,318.13)
WATER & SEWER - APPLBEE'S	-	-	-	-	-	484.74	(484.74)
W,S, STR IMPR 51-11 - AGASSIZ PROP	-	-	596,299.00	-	-	426,816.77	169,482.23
2011 CURB, GUTTER & SIDEWALK	(35,517.29)	753.64	34,912.17	-	-	148.52	-
2012 CURB, GUTTER & SIDEWALK	-	-	87,986.20	-	-	87,986.20	-
STR IMPR 44-12 - 22ND ST NE	-	-	-	-	57,447.91	359,049.38	(416,497.29)
STR IMPR 45-12 - 3RD ST NE	-	-	-	-	24,047.24	150,295.31	(174,342.55)
STR IMPR 45-13 - 10TH AVE NE	-	-	-	-	24,531.91	153,324.20	(177,856.11)
STR IMPR 46-12 - ELKHORN	-	-	-	-	1,199.76	7,498.50	(8,698.26)
OFF BOOK ACCOUNT- BND (LEVEE ESCROW)	24,876,160.59	-	-	-	-	5,107,394.28	19,768,766.31
<b>TOTAL MAJOR CAPITAL PROJECTS FUNDS</b>	<b>\$22,458,107.50</b>	<b>\$ 6,023,858.49</b>	<b>\$2,186,874.92</b>	<b>\$ -</b>	<b>\$ 342,808.17</b>	<b>\$12,159,846.24</b>	<b>\$18,166,186.50</b>
<b>MAJOR DEBT SERVICE FUNDS:</b>							
SALES & USE TAX	\$ 31,764.74	\$ 30,000.00	\$ -	\$ -	\$ 28,771.00	\$ -	\$ 32,993.74
CITY SHARE SPECIAL ASSESSMENT	32,127.04	151,080.61	-	-	143,254.00	-	39,953.65
SPECIAL ASSESSMENT CITY PROPERTY	41,899.73	5,539.68	-	-	10,035.44	11,405.25	25,998.72
PENALTY & INTEREST SPECIAL ASSMT	80,268.28	4,177.65	-	-	10,000.00	-	74,445.93
SPECIAL ASSESSMENT DEFICIENCY	58,653.46	52,788.00	-	-	50,000.00	-	61,441.46
NON-BONDED DEBT SERVICE	29,343.01	50,753.17	-	-	76,929.40	-	3,166.78
SEWER SEPARATION #1	175,812.05	2,839.76	-	-	-	-	178,651.81
SALES TAX REV BONDS 2010	344,822.24	180,000.00	-	-	180,000.00	166,666.67	178,155.57
REF IMP BONDS 2010	176,375.99	133,122.31	235,747.00	25,509.00	-	383,920.38	186,833.92
REF IMP BONDS 2011	458,412.06	328,614.69	348,083.62	-	500,000.00	442,780.29	192,330.08
NORTHLAND TRUST ESCROW	21,198.57	-	-	-	-	21,198.00	0.57
<b>TOTAL MAJOR DEBT SERVICE FUNDS</b>	<b>\$ 1,450,677.17</b>	<b>\$ 938,915.87</b>	<b>\$ 583,830.62</b>	<b>\$ 25,509.00</b>	<b>\$ 998,989.84</b>	<b>\$ 1,025,970.59</b>	<b>\$ 973,972.23</b>
<b>TOTAL MAJOR FUNDS</b>	<b>\$27,503,689.90</b>	<b>\$11,861,859.20</b>	<b>\$5,561,749.50</b>	<b>\$ 25,509.00</b>	<b>\$2,826,482.63</b>	<b>\$19,982,749.26</b>	<b>\$22,143,575.71</b>
<b>NONMAJOR SPECIAL REVENUE FUNDS:</b>							
HIGHWAY DISTRIBUTION	\$ 203,686.16	\$ 577,565.56	\$ 30,221.23	\$ -	\$ 100,501.00	\$ 498,764.72	\$ 212,207.23
ADVERTISING	25,235.43	242.60	-	-	-	9,930.00	15,548.03
EMERGENCY	59,142.42	-	-	-	-	-	59,142.42
INSURANCE RESERVE (PREM)	40,453.31	67,779.77	-	-	-	65,302.00	42,931.08
CEMETERY	95,923.76	106,211.32	5,000.00	-	23,495.13	64,943.06	118,696.89
TEMPORARY EMPLOYEES FUND	-	-	68,039.40	-	-	68,039.40	-
EQUIPMENT RESERVE	1,820,032.97	38,817.79	240,418.16	-	349,563.64	-	1,749,705.28
PUBLIC BUILDINGS	7,043.74	5,258.64	-	-	-	360.00	11,942.38
WEED CONTROL	33,413.98	24,728.11	-	-	13,391.12	4,219.20	40,531.77
ECONOMIC DEVELOPMENT	-	405,881.83	-	-	350,881.83	55,000.00	-
FIRE DEPT. HOMELAND SECURITY GRANT	-	-	-	-	-	10,737.94	(10,737.94)
ASSET FORFEITURE BUY FUND	11,724.99	-	-	-	-	10,785.00	939.99
ND DOT POLICE GRANTS	-	8,560.04	-	-	-	8,560.04	-
LIBRARY	53,179.70	154,526.68	-	-	1,200.00	151,908.54	54,597.84
PLANNING	71,004.03	-	-	-	1,200.00	5,148.45	64,655.58

Continued on next page..

CITY OF DEVILS LAKE  
 Devils Lake, North Dakota  
 SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)  
 For the Year Ended December 31, 2012

	Balance 1-1-12	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-12
<b>CONTINUED.....</b>							
<u>NONMAJOR SPECIAL REVENUE FUNDS:</u>							
PARKING AUTHORITY	\$ 23,749.68	\$ 25,860.56	\$ 52.82	\$ -	\$ 1,200.00	\$ 11,352.45	\$ 37,110.61
SHADE TREE	32,364.34	35,901.59	-	-	1,900.00	27,718.52	38,647.41
CITY BEAUTIFICATION	24,970.58	5,000.00	20,000.00	-	1,678.23	21,990.05	26,302.30
DL HISTORICAL PRESERVATION	191.61	2,300.00	-	-	-	205.50	2,286.11
JOB DEVELOPMENT AUTHORITY	39,504.98	35,730.82	-	-	1,200.00	32,850.00	41,185.80
AIRPORT HANGER	30,376.85	2,051.25	24,000.00	-	26,124.00	4,563.88	25,740.22
<b>TOTAL NONMAJOR SPECIAL REVENUE FUNDS</b>	<b>\$ 2,571,998.53</b>	<b>\$ 1,496,416.56</b>	<b>\$ 387,731.61</b>	<b>\$ -</b>	<b>\$ 872,334.95</b>	<b>\$ 1,052,378.75</b>	<b>\$ 2,531,433.00</b>
<b>TOTAL GOVERNMENTAL FUNDS</b>	<b>\$30,075,688.43</b>	<b>\$13,358,275.76</b>	<b>\$5,949,481.11</b>	<b>\$ 25,509.00</b>	<b>\$3,698,817.58</b>	<b>\$21,035,128.01</b>	<b>\$24,675,008.71</b>
<u>INTERNAL SERVICE FUND:</u>							
SELF INSURANCE	\$ 372,862.07	\$ 855,067.27	\$ -	\$ -	\$ -	\$ 899,609.61	\$ 328,319.73
<u>ENTERPRISE FUNDS:</u>							
<u>MAJOR ENTERPRISE FUNDS:</u>							
WATER	\$ 541,400.66	\$ 725,043.64	\$ -	\$ -	\$ 268,909.42	\$ 425,647.85	\$ 571,887.03
WATER SOURCE REPLACEMENT	1,665,498.93	286,604.58	180,000.00	-	1,600,000.00	249,950.00	282,153.51
SEWER	570,697.50	823,713.18	-	-	312,840.86	461,200.69	620,369.13
SANITATION	494,272.67	1,471,162.95	68,699.62	-	317,641.67	1,172,171.04	544,322.53
<b>TOTAL MAJOR BUSINESS-TYPE FUNDS</b>	<b>\$ 3,271,869.76</b>	<b>\$ 3,306,524.35</b>	<b>\$ 248,699.62</b>	<b>\$ -</b>	<b>\$2,499,391.95</b>	<b>\$ 2,308,969.58</b>	<b>\$ 2,018,732.20</b>
<u>NONMAJOR ENTERPRISE FUNDS:</u>							
LANDFILL CLOSURE	\$ 148,694.45	\$ 53,964.86	\$ 28.80	\$ -	\$ -	\$ 67,500.00	\$ 135,188.11
LANDFILL CLOSURE RESERVE	20,000.00	-	-	-	-	-	20,000.00
<b>TOTAL NONMAJOR BUSINESS-TYPE FUNDS</b>	<b>\$ 168,694.45</b>	<b>\$ 53,964.86</b>	<b>\$ 28.80</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 67,500.00</b>	<b>\$ 155,188.11</b>
<b>TOTAL ENTERPRISE FUNDS</b>	<b>\$ 3,440,564.21</b>	<b>\$ 3,360,489.21</b>	<b>\$ 248,728.42</b>	<b>\$ -</b>	<b>\$2,499,391.95</b>	<b>\$ 2,376,469.58</b>	<b>\$ 2,173,920.31</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$33,889,114.71</b>	<b>\$17,573,832.24</b>	<b>\$6,198,209.53</b>	<b>\$ 25,509.00</b>	<b>\$6,198,209.53</b>	<b>\$24,311,207.20</b>	<b>\$27,177,248.75</b>
<u>COMPONENT UNIT</u>							
DEVILS LAKE AIRPORT AUTHORITY	\$ 233,700.25	\$ 3,097,415.55	\$ -	\$ -	\$ -	\$ 3,005,661.23	\$ 325,454.57
<b>TOTAL COMPONENT UNIT</b>	<b>\$ 233,700.25</b>	<b>\$ 3,097,415.55</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,005,661.23</b>	<b>\$ 325,454.57</b>
<b>TOTAL REPORTING ENTITY</b>	<b>\$34,122,814.96</b>	<b>\$20,671,247.79</b>	<b>\$6,198,209.53</b>	<b>\$ 25,509.00</b>	<b>\$6,198,209.53</b>	<b>\$27,316,868.43</b>	<b>\$27,502,703.32</b>

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
DEPARTMENT OF DEFENSE:		
<u>Direct Assistance</u>		
North Dakota Environmental Infrastructure (Section 594) - ARRA	12.118	\$ 22,849
U.S. DEPARTMENT OF TRANSPORTATION:		
<u>Passed Through the State Department of Transportation:</u>		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	\$ 4,117
State and Community Highway Safety	20.600	4,671
<u>Passed Through Federal Aviation Administration</u>		
Airport Improvement Program - **	20.106	* 2,513,332
Total U.S. Department of Transportation		<u>\$ 2,522,120</u>
U.S. DEPARTMENT OF ENERGY:		
<u>Passed through the State Department of Commerce:</u>		
Energy Efficiency and Conservation Block Grant Program	81.128	\$ 19,431
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:		
<u>Passed through the State Department of Commerce:</u>		
Community Development Block Grants/State's program	14.228	\$ 215,405
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed Through the State Attorney's General Office</u>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	\$ 1,150
Total Expenditures of Federal Awards		<u>\$ 2,780,955</u>

\* - Major program

\*\* - Note: The airport is a discretely presented component unit of the City of Devils Lake and is a major program tested.

**NOTE 1: BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Devils Lake under programs of the federal government for the year ended December 31, 2012. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Devils Lake, it is not intended to and does not present the financial position or changes in net assets of the City of Devils Lake.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

## STATE AUDITOR

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117

---

### 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

City Commission  
City of Devils Lake  
Devils Lake, 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, North Dakota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Devils Lake's basic financial statements, and have issued our report thereon dated August 19, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Devils Lake'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 City of Devils Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Devils Lake'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 over financial reporting 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

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

**CITY OF DEVILS LAKE**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

---

**Purpose of this Report**

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



Robert R. Peterson  
State Auditor

August 19, 2013

**STATE AUDITOR**

ROBERT R. PETERSON  
Phone (701) 328-2241  
Fax (701) 328-1406



Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

---

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

---

Independent Auditor's Report

City Commission  
City of Devils Lake  
Devils Lake, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited City of Devils Lake's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on City of Devils Lake's major federal program for the year ended December 31, 2012. City of Devils Lake's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for City of Devils Lake's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Devils Lake's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Devils Lake's compliance.

***Opinion on Each Major Federal Program***

In our opinion, City of Devils Lake complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

## **CITY OF DEVILS LAKE**

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and  
Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 - Continued

---

### **Report on Internal Control Over Compliance**

Management of City of Devils Lake is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Devils Lake's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Devils Lake's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of City of Devils Lake as of and for the year ended December 31, 2012, and have issued our report thereon dated August 19, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson  
State Auditor

August 19, 2013

CITY OF DEVILS LAKE  
Devils Lake, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2012

**Section I - Summary of Auditor's Results**

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Unit	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weaknesses Identified? \_\_\_\_\_ Yes  No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ Yes  None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  No

Federal Awards

Internal Control over major programs:

Material Weakness Identified? \_\_\_\_\_ Yes  No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ Yes  None reported

Type of auditor's report issued on compliance for major program? Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? \_\_\_\_\_ Yes  No

Identification of major programs:

CFDA Numbers	Name of Federal Program Or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II - Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.