

**CITY OF MINNEWAUKAN
MINNEWAUKAN, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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**CITY OF MINNEWAUKAN
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2015**

<u>Name</u>	<u>Office</u>
Karyn Neve	Council President
Thomas Lang	Council Vice President
Allan Nord	Council Member
Ellen Salisbury	Council Member
Myron Jury	Mayor
Sherri Thompson	City Auditor



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Minnewaukan
Minnewaukan, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Minnewaukan, as of and for the year ended December 31, 2015, 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Qualified
General Fund	Unmodified
Municipal Highway Fund	Unmodified
Highway Tax Fund	Unmodified
Water, Sewer, and Garbage Fund	Qualified
Bank Building Fund	Qualified
Lagoon Fund	Qualified
Other Non-Major Fund	Unmodified

Basis for Qualified Opinions over Capital Assets

Prior to December 31, 2012, the City did not maintain capital asset records. Therefore, we were not able to obtain sufficient, appropriate audit evidence about the amounts at which capital assets are recorded for the governmental activities, business-type activities, Water, Sewer, and Garbage Fund, Bank Building Fund, and Lagoon Fund. The amount by which this departure would affect the assets, net position, and expenditures in these opinion units has not been determined.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinions over Capital Assets" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, the Water, Sewer, and Garbage fund, the Bank Building fund, and Lagoon fund of the City of Minnewaukan, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, municipal highway fund and the aggregate remaining governmental fund information of the City of Minnewaukan, as of December 31, 2015, and the respective changes in financial position 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 budgetary comparison schedules as listed in the table of contents 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Minnewaukan's basic financial statements. The combining schedule of changes in assets and liabilities – agency funds, listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of changes in assets and liabilities – agency funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedule of changes in assets and liabilities – agency funds is 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 October 12, 2016 on our consideration of the City of Minnewaukan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Minnewaukan's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

October 12, 2016

CITY OF MINNEWAUKAN
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 88,755	\$ 66,044	\$ 154,799
Receivables (Net of Allowance for Uncollectibles)	5,079	19,372	24,451
Due from Local Governments	9,763	-	9,763
Capital Assets:			
Land	179,817	-	179,817
Construction in Progress	36,000	-	36,000
Buildings and Improvements	-	34,948	34,948
Machinery and Equipment	23,253	-	23,253
Infrastructure	6,366,867	-	6,366,867
Less Accumulated Depreciation	<u>(249,147)</u>	<u>(5,205)</u>	<u>(254,352)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>6,356,790</u>	<u>29,743</u>	<u>6,386,533</u>
Total Assets	<u>6,460,387</u>	<u>115,159</u>	<u>6,575,546</u>
LIABILITIES			
Accounts Payable	23,972	5,455	29,427
Customer Deposits	717	3,608	4,325
Accrued Interest Payable	237	-	237
Accrued Compensated Absences	623	237	860
Noncurrent Liabilities:			
Due Within One Year	23,000	-	23,000
Due in More Than One Year	<u>17,650</u>	<u>-</u>	<u>17,650</u>
Total Liabilities	<u>66,199</u>	<u>9,300</u>	<u>75,499</u>
NET POSITION			
Net Investment in Capital Assets	6,316,140	29,743	6,345,883
Restricted for:			
Highways	36,633	-	36,633
Social Security	10,374	-	10,374
Unrestricted	<u>31,041</u>	<u>76,116</u>	<u>107,157</u>
Total Net Position	<u>\$ 6,394,188</u>	<u>\$ 105,859</u>	<u>\$ 6,500,047</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 142,690	\$ 29,496	\$ -	\$ -	\$ (113,194)	\$ -	\$ (113,194)
Highways	82,359	-	-	-	(82,359)	-	(82,359)
Public Works	136,882	-	-	111,850	(25,032)	-	(25,032)
Economic Development	116,500	-	247,279	552,916	683,695	-	683,695
Culture and Recreation	4,863	-	-	-	(4,863)	-	(4,863)
Interest and Fees	2,927	-	-	-	(2,927)	-	(2,927)
Total Governmental Activities	486,221	29,496	247,279	664,766	455,320	-	455,320
Business-type Activities:							
Water, Sewer, Garbage	129,678	126,194	-	-	-	(3,484)	(3,484)
Bank Building	36,818	46,035	-	-	-	9,217	9,217
Lagoon	38	16,404	-	-	-	16,366	16,366
Total Business-type Activities	166,534	188,633	-	-	-	22,099	22,099
Total Primary Government	\$ 652,755	\$ 218,129	\$ 247,279	\$ 664,766	455,320	22,099	477,419
General Revenues:							
Property Taxes					31,195	-	31,195
Sales and Other Taxes					64,084	-	64,084
State Aid Distribution					22,751	-	22,751
Other Revenues					12,535	-	12,535
Unrestricted Interest Earnings					102	-	102
Transfers					427,710	(427,710)	-
Total General Revenues and Transfers					558,377	(427,710)	130,667
Change in Net Position					1,013,697	(405,611)	608,086
Net Position - Beginning					5,380,491	511,470	5,891,961
Net Position - Ending					\$ 6,394,188	\$ 105,859	\$ 6,500,047

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
BALANCE SHEET – GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	<u>General</u>	<u>Municipal Highway Fund</u>	<u>Social Security Fund (Non-Major)</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 41,863	\$ 36,518	\$ 10,374	\$ 88,755
Receivables (Net of Allowance for Uncollectibles)	4,842	237	-	5,079
Due from Local Governments	6,431	3,332	-	9,763
Total Assets	<u>\$ 53,136</u>	<u>\$ 40,087</u>	<u>\$ 10,374</u>	<u>\$ 103,597</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	\$ 20,546	\$ 3,426	\$ -	\$ 23,972
Customer Deposits	689	28	-	717
Total Liabilities	<u>21,235</u>	<u>3,454</u>	<u>-</u>	<u>24,689</u>
FUND BALANCES				
Restricted				
Highway	-	36,633	-	36,633
Social Security	-	-	10,374	10,374
Assigned				
Horizons	15,088	-	-	15,088
Library	1,575	-	-	1,575
Unassigned	15,238	-	-	15,238
Total Fund Balances	<u>31,901</u>	<u>36,633</u>	<u>10,374</u>	<u>78,908</u>
Total Liabilities and Fund Balances	<u>\$ 53,136</u>	<u>\$ 40,087</u>	<u>\$ 10,374</u>	<u>\$ 103,597</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
AS OF DECEMBER 31, 2015

Total Governmental Funds Balances	\$	78,908
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Amounts reported for the governmental activities in the statement of net position are different because:

Capital assets used in the governmental activities are not financial resources and, therefore, not reported in the governmental fund.

Capital Assets	\$ 6,605,937	
Accumulated Depreciation	<u>(249,147)</u>	6,356,790

Long-term liabilities not due and payable in the current period and, therefore, are not included in the governmental funds:

Accrued Compensated Absences	(623)	
Bonds Payable	(40,650)	
Interest Payable	<u>(237)</u>	<u>(41,510)</u>

Net Position of Governmental Activities	\$	<u>6,394,188</u>
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See Notes to the Financial Statements

CITY OF MINNEWAUKAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Municipal Highway Fund	Social Security Fund (Non-Major)	Total Governmental Funds
REVENUES				
Property Taxes	\$ 26,729	\$ -	\$ 4,466	\$ 31,195
Sales and Other Taxes	33,483	30,601	-	64,084
Licenses and Permits	1,825	-	-	1,825
State Aid Distributions	22,751	-	-	22,751
Charges for Services	25,177	1,694	-	26,871
Intergovernmental	359,129	552,916	-	912,045
Rental Income	800	-	-	800
Investment Earnings	102	-	-	102
Miscellaneous	12,535	-	-	12,535
Total Revenues	<u>482,531</u>	<u>585,211</u>	<u>4,466</u>	<u>1,072,208</u>
EXPENDITURES				
Current:				
General Government	134,648	7,589	453	142,690
Public Works	-	298	-	298
Highways	-	23,603	-	23,603
Economic Development	116,500	-	-	116,500
Culture and Recreation	4,863	-	-	4,863
Capital Outlay	-	552,916	-	552,916
Debt Service:				
Principal Retirement	106,991	-	-	106,991
Interest and Fees	3,251	-	-	3,251
Total Expenditures	<u>366,253</u>	<u>584,406</u>	<u>453</u>	<u>951,112</u>
Excess of Revenues over Expenditures	<u>116,278</u>	<u>805</u>	<u>4,013</u>	<u>121,096</u>
OTHER FINANCING SOURCES				
Issuance of Long-Term Debt	15,468	-	-	15,468
Transfers In	462,710	-	-	462,710
Transfers Out	-	-	(35,000)	(35,000)
Total Other Financing Sources (Uses)	<u>478,178</u>	<u>-</u>	<u>(35,000)</u>	<u>443,178</u>
Net Change in Fund Balances	594,456	805	(30,987)	564,274
Fund Balances - Beginning	<u>(562,555)</u>	<u>35,828</u>	<u>41,361</u>	<u>(485,366)</u>
Fund Balances - Ending	<u>\$ 31,901</u>	<u>\$ 36,633</u>	<u>\$ 10,374</u>	<u>\$ 78,908</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Total Governmental Funds \$ 564,274

Amounts reported for governmental activities in the statement of activities are different because:

Capital Outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays	\$ 552,916	
Depreciation Expense	<u>(195,340)</u>	357,576

Repayment of debt 106,991

Proceeds from long-term debt provide financial resources to the governmental funds but the issuance increases long-term liabilities in the statement of net position. (15,468)

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

Change in Interest Payable		<u>324</u>
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Changes in Net Position \$ 1,013,697

CITY OF MINNEWAUKAN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2015

	Business-type Activities			Totals Current Year
	Water, Sewer and Garbage	Bank Building	Lagoon	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 33,671	\$ 10,336	\$ 22,037	\$ 66,044
Accounts Receivable (Net)	17,079	-	2,293	19,372
Total Current Assets	<u>50,750</u>	<u>10,336</u>	<u>24,330</u>	<u>85,416</u>
Non-Current Assets:				
Capital Assets				
Buildings and Improvements	-	34,948	-	34,948
Less Accumulated Depreciation	-	(5,205)	-	(5,205)
Total Capital Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>29,743</u>	<u>-</u>	<u>29,743</u>
Total Assets	<u>50,750</u>	<u>40,079</u>	<u>24,330</u>	<u>115,159</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	4,333	1,122	-	5,455
Customer Deposits	3,386	-	222	3,608
Compensated Absences	237	-	-	237
Total Current Liabilities	<u>7,956</u>	<u>1,122</u>	<u>222</u>	<u>9,300</u>
Total Liabilities	<u>7,956</u>	<u>1,122</u>	<u>222</u>	<u>9,300</u>
NET POSITION				
Net Investment in Capital Assets	-	29,743	-	29,743
Unrestricted	42,794	9,214	24,108	76,116
Total Net Position	<u>\$ 42,794</u>	<u>\$ 38,957</u>	<u>\$ 24,108</u>	<u>\$ 105,859</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-type Activities			Totals Current Year
	Water, Sewer and Garbage	Bank Building	Lagoon	
OPERATING REVENUES:				
Water Sales	\$ 65,227	\$ -	\$ -	\$ 65,227
Utility Charges	50,263	800	-	51,063
Sewer Charges	8,203	-	16,404	24,607
Rental Income	-	45,235	-	45,235
Miscellaneous Services	2,501	-	-	2,501
Total Operating Revenues	<u>126,194</u>	<u>46,035</u>	<u>16,404</u>	<u>188,633</u>
OPERATING EXPENSES:				
Utilities	53,585	10,772	-	64,357
Repairs and Maintenance	9,914	13,137	-	23,051
Supplies	28,973	1,723	-	30,696
Payroll	31,208	-	-	31,208
Insurance	1,024	8,268	-	9,292
Administration	2,963	-	5	2,968
Miscellaneous	1,318	-	-	1,318
Training	492	-	-	492
Travel and Entertainment	201	-	-	201
Depreciation Expense	-	2,918	-	2,918
Total Operating Expenses	<u>129,678</u>	<u>36,818</u>	<u>5</u>	<u>166,501</u>
Operating Income (Loss)	<u>(3,484)</u>	<u>9,217</u>	<u>16,399</u>	<u>22,132</u>
NON-OPERATING REVENUES:				
Interest Expense	-	-	(33)	(33)
Total Non-Operating Revenues	<u>-</u>	<u>-</u>	<u>(33)</u>	<u>(33)</u>
TRANSFERS:				
Transfers Out	<u>(275,000)</u>	<u>(100,000)</u>	<u>(52,710)</u>	<u>(427,710)</u>
Total Transfers	<u>(275,000)</u>	<u>(100,000)</u>	<u>(52,710)</u>	<u>(427,710)</u>
Changes in Net Position	(278,484)	(90,783)	(36,344)	(405,611)
Net Position - Beginning	321,278	129,740	60,452	511,470
Net Position - Ending	<u>\$ 42,794</u>	<u>\$ 38,957</u>	<u>\$ 24,108</u>	<u>\$ 105,859</u>

See Notes to the Financial Statements

CITY OF MINNEWUAKAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-type Activities			Totals Current Year
	Water, Sewer and Garbage	Bank Building	Lagoon	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 123,958	\$ 46,035	\$ 16,221	\$ 186,214
Payments to Suppliers	(99,004)	(34,380)	(4)	(133,388)
Payments to Employees	(31,259)	-	-	(31,259)
Net Cash Provided by Operating Activities	<u>(6,305)</u>	<u>11,655</u>	<u>16,217</u>	<u>21,567</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Change in Due From Other Funds	254,765	53,012	32,544	340,321
Transfers Out	(275,000)	(100,000)	(52,710)	(427,710)
Net Cash Used by Noncapital Financing Activities	<u>(20,235)</u>	<u>(46,988)</u>	<u>(20,166)</u>	<u>(87,389)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal Payments on Long-Term Debt	-	-	(2,000)	(2,000)
Interest Paid on Debt	-	-	(50)	(50)
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(2,050)</u>	<u>(2,050)</u>
Net Decrease in Cash and Cash Equivalents	(26,540)	(35,333)	(5,999)	(67,872)
Cash and Cash Equivalents, January 1	<u>60,211</u>	<u>45,669</u>	<u>28,036</u>	<u>133,916</u>
Cash and Cash Equivalents, December 31	<u>\$ 33,671</u>	<u>\$ 10,336</u>	<u>\$ 22,037</u>	<u>\$ 66,044</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ (3,484)	\$ 9,217	\$ 16,399	\$ 22,132
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	-	2,918	-	2,918
Changes in Assets and Liabilities:				
Accounts Receivable	(2,674)	-	(163)	(2,837)
Accounts Payable	(534)	(480)	-	(1,014)
Customer Deposits	438	-	(19)	419
Accrued Compensated Absences	(51)	-	-	(51)
Net Cash Provided (Used) by Operating Activities	<u>\$ (6,305)</u>	<u>\$ 11,655</u>	<u>\$ 16,217</u>	<u>\$ 21,567</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUNDS
AS OF DECEMBER 31, 2015

	<u>Agency Funds</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ <u>9,937</u>
Total Current Assets	\$ <u>9,937</u>
LIABILITIES	
Current Liabilities:	
Due to Other Agencies	\$ <u>9,937</u>
Total Liabilities	\$ <u>9,937</u>

See Notes to the Financial Statements

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Minnewaukan operates under a City Council form of government. The financial statements of the City of Minnewaukan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. 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.

Reporting Entity

The financial statements of the City include those of independently administered organizations of which guardianship responsibility falls on the City. Guardianship responsibility is determined on the basis of taxing powers, budget authority, appointment of governing board members, designation of management, and fiscal accountability including a guaranteed or moral responsibility for debt. The criteria used to determine the financial reporting entity were in conformance with GASB Statement 61, *The Financial Reporting Entity*.

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. For the most part, the effect of inter-fund activity has been removed from these statements. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not 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.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which are considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, reserves, fund balance/net position, revenues, and expenditures or expenses, as appropriate. The City has the following funds:

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

1) Governmental Fund Types

Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources.

Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the City's major governmental funds:

- a) 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.
- b) Municipal Highway Fund — This is the City's fund used for the highway tax distributions from the State to be used for maintenance and repair of the roads within the City.

The other governmental fund of the City is considered nonmajor.

2) Proprietary Fund Types

Proprietary fund types are used to account for a government's ongoing organizations and activities, which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows.

Enterprise Funds are used to finance and account for the acquisition, operation, and maintenance of the City's facilities and services, which are supported primarily by user charges. The following comprise the City's major enterprise funds:

- a) Water, Sewer, and Garbage Fund – To account for the operation and maintenance of the City's Water Utility, Sanitary Sewer System and Sanitation.
- b) Bank Building Fund – This is the City's fund used to account for the operations of the bank building which is rented out to USDA FSA and Bremer Bank.
- c) Lagoon Fund - This is the City's fund used to account for the sewer improvement project.

Agency Funds are used to account for assets held by the City as an agent for other individuals, private organizations, or other governmental units and/or funds. The City acts as an agent in collecting monies on behalf of various basement mitigation deposits for city residents. No liability exists on behalf of the City beyond the extent of revenue received for these agency funds.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund financial statements. However, agency funds, unlike other fiduciary funds, report only assets and liabilities and do not have a measurement focus, and follow the accrual basis of accounting. 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 Fund financial statements 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 City 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, pension expenditures and claims and judgments, are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility), and miscellaneous revenues are generally recorded as revenue when received in cash because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received in cash, but investment earnings are recorded as earned, since they are measurable and available.

Property taxes are recognized as a receivable at the time an enforceable legal claim is established. Property taxes are considered available if received within 60 days of year-end.

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.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Proprietary Funds distinguish operating revenues and expenses from nonoperating 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 City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets

The City management submits a proposed budget and levy to the City Council. The Council shall adopt the budget no later than the seventh day of October by resolution, which shall set forth the total for each budget fund. The proposed levies must be adopted and certified to the County by October 10th of each year.

Cash and Cash Equivalents

Cash includes amounts in demand deposits and money market accounts.

Capital Assets

Capital assets, including land, buildings, improvements, infrastructure, and equipment assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City of Minnewaukan as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 the life of the asset 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 of business-type activities is included as part of the capitalized value of the assets constructed.

Buildings, improvements, infrastructure and equipment assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings	20-40 Years
Machinery and Equipment	5-15 Years
Infrastructure	5-50 Years

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Inter-fund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

Fund Balance

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

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by law through constitutional provisions or enabling legislation.

Committed – consists of internally imposed constraints. These constraints are established by formal action of the City Council.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council. Pursuant to Council resolution, the City's Clerk-Treasurer is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

The City considers the spendable fund balance to have been spent when expenditures are incurred.

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resource (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will *not* be recognized as an inflow of resources (revenue) until that time. The City does not have any items that qualify for reporting in this category.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 EXPENDITURES IN EXCESS OF APPROPRIATIONS

The City's following funds had expenditures that exceeded budget appropriations for the year ended December 31, 2015.

Fund	
<i>Major Funds:</i>	
General Fund	\$ 265,050
Municipal Highway Fund	534,011
	\$ 799,061

No remedial action is anticipated or required by the City regarding the above excess expenditures.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 3 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business in 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 deposits not covered by insurance bonds.

At year ended December 31, 2015, the City's carrying amount of deposits was approximately \$165,000 and the bank balance was approximately \$166,000. The City's balances were fully covered by federal depository insurance as of December 31, 2015.

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.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consists of money due for public works services performed by the City for the residents of the City. Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. The allowance for uncollectible accounts receivable was \$2,298. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

NOTE 5 TAXES RECEIVABLE

Property tax levies are set by the City Council in October each year and are certified to the county for collection the following year. In North Dakota, counties act as collection agents for all property taxes.

The county spreads the levies over all taxable property in the City. Such taxes become receivables of the City as of January 1.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Property taxes are payable in equal installments by property owners to the county as follows: 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.

The county remits the collections to the City and other taxing districts on a monthly basis.

Unpaid taxes at December 31 become liens on the respective property and are classified in the financial statements as taxes receivable. The receivable is fully offset by deferred inflows of resources as it is not available to finance current expenditures.

NOTE 6 CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended December 31, 2015:

	Primary Government				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<u>Governmental Activities</u>					
Capital Assets, Non-Depreciable:					
Land	\$ 179,817	\$ -	\$ -	\$ -	\$ 179,817
Construction in Progress	71,537	-	-	(35,537)	36,000
Capital Assets, Depreciable:					
Machinery and Equipment	23,253	-	-		23,253
Infrastructure	5,778,414	552,916	-	35,537	6,366,867
Totals at Historical Cost	<u>6,053,021</u>	<u>552,916</u>	<u>-</u>	<u>-</u>	<u>6,605,937</u>
Less Accumulated Depreciation for:					
Machinery and Equipment	(8,822)	(4,651)	-	-	(13,473)
Infrastructure	(44,985)	(190,689)	-	-	(235,674)
Total Accumulated Depreciation	<u>(53,807)</u>	<u>(195,340)</u>	<u>-</u>	<u>-</u>	<u>(249,147)</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 5,999,214</u>	<u>\$ 357,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,356,790</u>
<u>Business-type Activities</u>					
Capital Assets, Depreciable:					
Buildings and Improvements	\$ 34,948	\$ -	\$ -	\$ -	\$ 34,948
Totals at Historical Cost	<u>34,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,948</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	(2,287)	(2,918)	-	-	(5,205)
Total Accumulated Depreciation	<u>(2,287)</u>	<u>(2,918)</u>	<u>-</u>	<u>-</u>	<u>(5,205)</u>
Total Business-type Activities Capital Assets, Net	<u>\$ 32,661</u>	<u>\$ (2,918)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,743</u>
Depreciation expense was charged to Governmental functions as follows:					
Highway					\$ 58,756
Public Works					136,584
Total Depreciation Expense					<u>\$ 195,340</u>

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

NOTE 7 INTERFUND RECEIVABLES AND PAYABLES

The City had the following transfers or due to/from other funds at December 31, 2015:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Water, Sewer, Garbage	\$ 275,000
General Fund	Bank Building	100,000
General Fund	Lagoon Fund	52,710
General Fund	Social Security Fund	35,000

Transfers in and out were made to cover the City's cash flow needs as of December 31, 2015.

NOTE 8 ACCOUNTS PAYABLE

Accounts payable consists of amounts on open accounts owing to individuals, companies, or organizations for goods and services received prior to December 31, but paid for subsequent to that date. At December 31, 2015, the majority of the accounts payable was attributable to the Town Relocation and Water Tower projects.

NOTE 9 LONG-TERM DEBT

Long-term liability activity for the year ended December 31, 2015, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>1/1/2015</u>	<u>Debt</u> <u>Issued</u>	<u>Principal</u> <u>Retirements</u> <u>2015</u>	<u>Balance</u> <u>12/31/2015</u>	<u>Due Within</u> <u>One Year</u>
General Obligation Bond Series 2012	\$ 40,650	\$ -	\$ -	\$ 40,650	\$ 23,000
Federal and State Anticipation Certification of Indebtedness of 2013	<u>91,523</u>	<u>15,468</u>	<u>106,991</u>	<u>-</u>	<u>-</u>
Governmental Activities Long-Term Liabilities	<u>\$ 132,173</u>	<u>\$ 15,468</u>	<u>\$ 106,991</u>	<u>\$ 40,650</u>	<u>\$ 23,000</u>
 <u>Business-Type Activities</u>					
Sewer Improvement Refunding Revenue Bonds of 1998	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>	<u>\$ -</u>

Governmental Activities

\$90,000 General Obligation Bond Series 2012 due in annual installments averaging \$22,500 starting August 1, 2014 to August 1, 2017; interest is 3.50 percent. The balance at December 31, 2015 is \$40,650.

Federal and State Aid Anticipation Certificate of Indebtedness of 2013 issued in the maximum principal amount of \$6,139,696 with a maturity date of June 1, 2018. Interest payments are due June 1 and December 1 each year at a 2.25% interest rate. There is no principle balance due on the Certificate of Indebtedness of 2013 at December 31, 2015; the remaining balance was paid off during the year.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Business-Type Activities

\$218,000 Sewer Improvement Refunding Revenue Bonds of 1998 due in annual installments averaging \$14,000 starting September 1, 1998 to September 1, 2015; interest is 2.50 percent. The remaining balance of \$2,000 was paid during the year and there is no balance remaining as of December 31, 2015.

The annual requirements to amortize outstanding debt, as of December 31, 2015, are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bond Series 2012</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 23,000	\$ 1,020
2017	17,650	309
	<u>\$ 40,650</u>	<u>\$ 1,329</u>

NOTE 10 RISK MANAGEMENT

The City of Minnewaukan 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.

The City of Minnewaukan participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Minnewaukan 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 the City of Minnewaukan with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Minnewaukan participates in the North Dakota Worker's Compensation Bureau and participates in the North Dakota Public Employees Retirement System for employee health and accident insurance.

There were no settled claims resulting from these risks that have exceeded insurance coverage in any of the past three fiscal years.

NOTE 11 COMMITMENTS AND CONTINGENCY

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

Grant Programs

The City participates in numerous federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2015, may be impaired.

In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12 COMPENSATED ABSENCES

Vacation leave is accrued at a rate of four hours per month. Employees were allowed to have a carryover of up to twenty hours. As of December 31, 2015, the total liability to the City is \$860.

NOTE 13 NEW PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

CITY OF MINNEWAUKAN
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
AS OF DECEMBER 31, 2015

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on its financial statements.

CITY OF MINNEWAUKAN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Variance with Final Budget -
	Original & Final	Actual Amounts	Positive (Negative)
REVENUES			
Property Taxes	\$ 21,600	\$ 26,729	\$ 5,129
Sales and Other Taxes	23,850	33,483	9,633
Licenses and Permits	1,800	1,825	25
State Aid Distributions	22,000	22,751	751
Charges for Services	24,000	25,177	1,177
Intergovernmental	-	359,129	359,129
Rental Income	-	800	800
Investment Earnings	-	102	102
Miscellaneous	630	12,535	11,905
Total Revenues	<u>93,880</u>	<u>482,531</u>	<u>388,651</u>
EXPENDITURES			
Current:			
General Government	98,703	134,648	(35,945)
Economic Development	-	116,500	(116,500)
Culture and Recreation	2,500	4,863	(2,363)
Debt Service:			
Principal Retirement	-	106,991	(106,991)
Interest and Fees	-	3,251	(3,251)
Total Expenditures	<u>101,203</u>	<u>366,253</u>	<u>(265,050)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(7,323)</u>	<u>116,278</u>	<u>123,601</u>
OTHER FINANCING SOURCES			
Issuance of Long-Term Debt	-	15,468	15,468
Transfers In	-	462,710	462,710
Total Other Financing Sources (Uses)	<u>-</u>	<u>478,178</u>	<u>478,178</u>
Net Change in Fund Balances	(7,323)	594,456	601,779
Fund Balances - Beginning	<u>(562,555)</u>	<u>(562,555)</u>	<u>-</u>
Fund Balances - Ending	<u>\$ (569,878)</u>	<u>\$ 31,901</u>	<u>\$ 601,779</u>

See Note to the Budgetary Comparison Schedules

CITY OF MINNEWAUKAN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – BUDGET TO ACTUAL
MUNICIPAL HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original & Final	Actual Amounts	
REVENUES			
Property Taxes	\$ -	\$ -	\$ -
Sales and Other Taxes	32,000	30,601	(1,399)
Charges for Services	-	1,694	1,694
Intergovernmental	-	552,916	552,916
Miscellaneous	2,000	-	(2,000)
Total Revenues	<u>34,000</u>	<u>585,211</u>	<u>551,211</u>
EXPENDITURES			
Current:			
General Government	3,045	7,589	(4,544)
Public Works	-	298	(298)
Highways	47,350	23,603	23,747
Capital Outlay	-	552,916	(552,916)
Total Expenditures	<u>50,395</u>	<u>584,406</u>	<u>(534,011)</u>
Net Change in Fund Balances	(16,395)	805	17,200
Fund Balances - Beginning	<u>35,828</u>	<u>35,828</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 19,433</u>	<u>\$ 36,633</u>	<u>\$ 17,200</u>

See Note to the Budgetary Comparison Schedules

CITY OF MINNEWAUKAN
NOTE TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 BUDGETARY COMPARISON

Budgets are prepared for City funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the City.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The annual appropriated budget is not legally binding on the City unless the City has a deficit fund balance. Expenditures exceed the budget in the general fund and municipal highway fund by \$265,050 and \$534,011, respectively.

CITY OF MINNEWAUKAN
COMBINING SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	ASSETS	LIABILITIES
	Cash and Cash Equivalents	Due to Other Agencies
Dahlen		
January 1, 2015	\$ 9,934	\$ 9,934
Additions	3	3
December 31, 2015	\$ 9,937	\$ 9,937



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the City Council
City of Minnewaukan
Minnewaukan, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Minnewaukan's basic financial statements and have issued our report thereon dated October 12, 2016.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

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. We consider the deficiencies described in the accompany schedule of findings and responses as items 2015-002 and 2015-003 to be significant deficiencies.

Compliance and Other Matters

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

City of Minnewaukan's Response to Findings

The City of Minnewaukan's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Minnewaukan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

October 12, 2016

CITY OF MINNEWAUKAN
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

Financial Statement Findings

2015-001 *Preparation of Financial Statements*

Criteria

The City does not have the internal resources to identify all journal entries required to maintain a general ledger and to prepare the full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the City Council. However, the City's Auditor did assist in the preparation of the financial statements, including the notes to the financial statements, and did propose material adjusting journal entries to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (GAAP).

Cause

The City does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The City's management is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

For entities of the City's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

Management recognizes the deficiency and believes it is effectively handling the reporting responsibilities with the procedures described above.

CITY OF MINNEWAUKAN
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-002 *Segregation of Duties*

Criteria

Generally, a system of internal control contemplates separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition

Lack of sufficient segregation of duties.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The mayor or council member should periodically receive and review the bank statements and canceled checks before turning them over to the clerk-treasurer to prepare the bank reconciliation. In addition, these areas should be reviewed periodically and consideration given to improving the segregation of duties.

Views of Responsible Officials and Planned Corrective Actions

The City will implement recommendations when it becomes cost effective.

CITY OF MINNEWAUKAN
SUMMARY SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

2015-003 *Capital Asset Records*

Criteria

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Condition

The capital asset records do not provide sufficient information for the determination that the general ledger accounts are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Cause

Internal controls have not been effectively designed or implemented to ensure that all required information related to the acquisition, capitalization, depreciation, and disposition of capital assets is captured and reflected in the appropriate accounting records.

Effect

An appropriate system of internal controls is not present to make a determination whether capital assets are properly reflected in accordance with accounting principles generally accepted in the United States of America.

Recommendation

We recommend that the entire accounting for capital assets be reviewed and a process to obtain a current capital asset record be developed. We also recommend that internal controls related to capital additions, depreciation determination, disposal reporting, and physical inventory inspections be developed and implemented.

Views of Responsible Officials and Planned Corrective Actions

The City will review their current accounting records and determine how to obtain the required information on a cost effective basis.