

**OFFICE OF
STATE AUDITOR**

AUDIT REPORT

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

FOR THE YEAR ENDED DECEMBER 31, 2011



CITY OF DEVILS LAKE
Devils Lake, North Dakota

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CITY OF DEVILS LAKE
Devils Lake, North Dakota

CITY OFFICIALS

As of December 31, 2011

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

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

STATE AUDITOR

ROBERT R. PETERSON
Phone (701) 328-2241
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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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Devils Lake's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2011, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 33 through 35 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.

CITY OF DEVILS LAKE

Independent Auditor's Report - Continued

Management has omitted the 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 this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Devils Lake's financial statements. The schedule of fund activity, the combining balance sheet – nonmajor funds, the combining statement of revenues, expenditures and changes in fund balances – nonmajor funds, and the schedule of expenditures of federal awards, as required by Office of Management Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) are presented for purposes of additional analysis and are 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 fund activity is not fairly stated in all material respects in relation to the financial statements taken as a whole. In our opinion, the combining balance sheet – nonmajor funds, the combining statement of revenues, expenditures and changes in fund balances – nonmajor funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.



Robert R. Peterson
State Auditor

December 7, 2012

CITY OF DEVILS LAKE
Devils Lake, North Dakota
STATEMENT OF NET ASSETS
December 31, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Airport
ASSETS				
Cash and investments	\$ 10,212,913	\$ 3,282,210	\$ 13,495,123	\$ 236,880
Cash with fiscal agent	21,199	-	21,199	-
Deposit with fiscal agent	20,445,115	-	20,445,115	-
Utility billings receivable	-	221,657	221,657	-
Accounts receivable	13,026	11,497	24,523	5,506
Intergovernmental receivable	657,008	49,304	706,312	81,106
Prepaid expense	30,521	-	30,521	-
Taxes receivable	67,549	-	67,549	1,740
Special assessments receivable	15,613	-	15,613	-
Loans receivable	264,410	-	264,410	-
Long-Term Receivable:				
Uncertified special assessments receivable	1,150,721	-	1,150,721	-
Capital Assets:				
<i>Not Being Depreciated</i>				
Land	2,388,146	185,920	2,574,066	294,933
Construction in progress	77,620,518	10,453,709	88,074,227	6,187,294
<i>Being Depreciated</i>				
Buildings	1,263,060	2,038,121	3,301,181	1,837,551
Equipment and vehicles	1,073,064	887,836	1,960,900	164,569
Infrastructure	40,395,939	14,485,792	54,881,731	1,962,441
Total Capital Assets	<u>\$ 122,740,727</u>	<u>\$ 28,051,378</u>	<u>\$ 150,792,105</u>	<u>\$ 10,446,788</u>
Total Assets	<u>\$ 155,618,802</u>	<u>\$ 31,616,046</u>	<u>\$ 187,234,848</u>	<u>\$ 10,772,020</u>
LIABILITIES				
Accounts payable	\$ 416,629	\$ 69,592	\$ 486,221	\$ 89,759
Salaries and benefits payable	560	-	560	33
Retainage payable	262,990	-	262,990	-
IBNR payable	45,000	-	45,000	-
Interest payable	21,456	14,307	35,763	-
Long-Term Liabilities:				
Portion Due or Payable Within One Year:				
Sales tax bonds payable	100,000	-	100,000	-
Revenue bond drawdowns	-	155,000	155,000	-
Special assessment bonds payable	685,000	-	685,000	-
Capital leases payable	78,585	60,000	138,585	-
Compensated absences payable	43,666	12,920	56,586	2,897
Portion Due or Payable After One Year:				
Sales tax bonds payable	2,400,000	-	2,400,000	-
Revenue bond drawdowns	-	3,010,000	3,010,000	-
Special assessment bonds payable	6,100,000	-	6,100,000	-
Capital leases payable	342,041	195,000	537,041	-
Compensated absences payable	392,998	116,284	509,282	26,075
Total Liabilities	<u>\$ 10,888,925</u>	<u>\$ 3,633,103</u>	<u>\$ 14,522,028</u>	<u>\$ 118,764</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 113,035,101	\$ 28,051,378	\$ 141,086,479	\$ 10,446,788
Restricted for:				
Debt service	2,627,129	-	2,627,129	-
Capital projects	23,636,319	-	23,636,319	-
General government	2,005,165	-	2,005,165	-
Public works	240,160	-	240,160	-
Emergencies	59,142	-	59,142	-
Economic/job development	1,110,015	-	1,110,015	-
Culture and recreation	115,736	-	115,736	-
Conservation of natural resources	34,766	-	34,766	-
Other special purposes	129,659	-	129,659	-
Unrestricted	<u>1,736,685</u>	<u>(68,435)</u>	<u>1,668,250</u>	<u>206,468</u>
Total Net Assets	<u>\$ 144,729,877</u>	<u>\$ 27,982,943</u>	<u>\$ 172,712,820</u>	<u>\$ 10,653,256</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, 2011

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Airport
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 1,165,857	\$ 362,403	\$ -	\$ -	\$ (803,454)		\$ (803,454)	
Public safety	1,958,078	6,850	521,124	38,627	(1,391,477)		(1,391,477)	
Public works	3,567,068	223,770	18,860,197	51,733,810	67,250,709		67,250,709	
Economic development	170,105	-	-	-	(170,105)		(170,105)	
Culture and recreation	209,528	5,023	-	109,386	(95,119)		(95,119)	
Conserv. of natural resources	37,881	-	-	-	(37,881)		(37,881)	
Health and welfare	10,323	-	-	-	(10,323)		(10,323)	
Other	15,716	-	11,816	-	(3,900)		(3,900)	
Interest & fees on long-term debt	226,573	-	-	-	(226,573)		(226,573)	
Total Governmental Activities	\$ 7,361,129	\$ 598,046	\$ 19,393,137	\$ 51,881,823	\$ 64,511,877		\$ 64,511,877	
Business-Type Activities:								
Water operations	\$ 808,590	\$ 665,116	\$ -	\$ -	\$ -	\$ (143,474)	\$ (143,474)	
Water source replacement	99,277	281,533	-	-	-	182,256	-	
Sewer	2,315,369	517,321	-	-	-	(1,798,048)	-	
Sanitation	1,139,365	1,387,178	5,000	-	-	252,813	-	
Other enterprise funds	8,128	50,121	-	-	-	41,993	41,993	
Total Business-Type Activities	\$ 4,370,729	\$ 2,901,269	\$ 5,000	\$ -	\$ -	\$ (1,464,460)	\$ (101,481)	
Total Primary Government	\$ 11,731,858	\$ 3,499,315	\$ 19,398,137	\$ 51,881,823	\$ 64,511,877	\$ (1,464,460)	\$ 64,410,396	
Component Unit:								
Airport	\$ 406,151	\$ 172,536	\$ 1,079,476	\$ -				\$ 845,861
General Revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 1,212,678	\$ -	\$ 1,212,678	\$ 92,870
Property taxes, levied for special purposes					536,897	-	536,897	-
Property taxes, levied for debt service					61,851	-	-	-
Sales taxes					2,616,585	319,799	2,936,384	-
Non restricted grants and contributions					636,108	-	636,108	-
Unrestricted investment earnings					21,464	861	22,325	-
Sale of capital assets					17,000	-	17,000	-
Miscellaneous					296,909	59,600	356,509	69,052
Transfers- Enterprise (Net)					(1,708,897)	1,708,897	-	-
Total General Revenues and Transfers					\$ 3,690,595	\$ 2,089,157	\$ 5,717,901	\$ 161,922
Changes in Net Assets					\$ 68,202,472	\$ 624,697	\$ 68,827,169	\$ 1,007,783
Net Assets - January 1					\$ 51,831,722	\$ 27,358,246	\$ 79,189,968	\$ 9,645,473
Prior Period Adjustments					24,695,683	-	24,695,683	-
Net Assets - January 1, as restated					\$ 76,527,405	\$ 27,358,246	\$ 103,885,651	\$ 9,645,473
Net Assets - December 31					\$ 144,729,877	\$ 27,982,943	\$ 172,712,820	\$ 10,653,256

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, 2011

	General Fund	Lake Region Growth Fund	Equipment Reserve	Water Supply Constr.	Flood Protection	Infrastructure
ASSETS						
Cash and investments	\$ 1,493,039	\$ 774,645	\$ 1,820,033	\$ -	\$ -	\$ 806,299
Cash with fiscal agent	-	-	-	-	-	-
Deposit with fiscal agent	-	-	-	-	-	-
Accounts receivable	10,889	-	-	-	-	-
Intergovernmental receivable	318,909	-	-	-	-	113,041
Taxes receivable	42,584	-	-	-	-	-
Special assessments receivable	-	-	-	-	-	-
Uncertified special assessments receivable	-	-	-	-	-	-
Loans receivable	-	264,410	-	-	-	-
Advance due from other funds	190,007	-	-	-	-	-
Due from other funds	539,518	-	-	-	-	-
Total Assets	\$ 2,594,946	\$ 1,039,055	\$ 1,820,033	\$ -	\$ -	\$ 919,340
LIABILITIES AND FUND BALANCES						
<u>Liabilities:</u>						
Accounts payable	\$ 38,530	\$ -	\$ -	\$ 8,456	\$ 288,715	\$ 2,116
Salaries and benefits payable	560	-	-	-	-	-
Advance due to other funds	-	-	-	-	-	-
Due to other funds	-	-	-	239,456	2,180,286	-
Deferred revenues	42,584	-	-	-	-	-
Total Liabilities	\$ 81,674	\$ -	\$ -	\$ 247,912	\$ 2,469,001	\$ 2,116
<u>Fund Balances:</u>						
<u>Non-Spendable:</u>						
Loans receivable	\$ -	\$ 246,410	\$ -	\$ -	\$ -	\$ -
<u>Restricted:</u>						
Advances	190,007	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	917,224
General government	-	-	1,820,033	-	-	-
Public works/streets	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Culture & recreation	-	-	-	-	-	-
Economic development	-	792,645	-	-	-	-
Emergency	-	-	-	-	-	-
Other special purposes	-	-	-	-	-	-
<u>Committed:</u>						
Asset forfeiture buy fund	-	-	-	-	-	-
City beautification	-	-	-	-	-	-
<u>Unassigned:</u>						
General fund	2,323,265	-	-	-	-	-
Negative fund balances	-	-	-	(247,912)	(2,469,001)	-
Total Fund Balances	\$ 2,513,272	\$ 1,039,055	\$ 1,820,033	\$ (247,912)	\$ (2,469,001)	\$ 917,224
Total Liabilities and Fund Balances	\$ 2,594,946	\$ 1,039,055	\$ 1,820,033	\$ -	\$ -	\$ 919,340

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

Levee Escrow	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
\$ 2,250,730	\$ 1,296,798	\$ 1,429,028	\$ 9,870,572
-	21,199	-	21,199
20,445,115	-	-	20,445,115
-	-	2,137	13,026
-	20,911	204,147	657,008
-	-	24,965	67,549
-	15,613	-	15,613
-	1,150,721	-	1,150,721
-	-	-	264,410
-	-	-	190,007
2,180,286	-	-	2,719,804
<u>\$ 24,876,131</u>	<u>\$ 2,505,242</u>	<u>\$ 1,660,277</u>	<u>\$ 35,415,024</u>
\$ -	\$ -	\$ 78,812	\$ 416,629
-	-	-	560
-	76,905	113,102	190,007
-	-	300,062	2,719,804
-	1,166,334	24,965	1,233,883
<u>\$ -</u>	<u>\$ 1,243,239</u>	<u>\$ 516,941</u>	<u>\$ 4,560,883</u>
\$ -	\$ -	\$ -	\$ 246,410
-	-	-	190,007
-	1,262,003	132,680	1,394,683
24,876,131	-	298,860	26,092,215
-	-	167,486	1,987,519
-	-	246,746	246,746
-	-	33,606	33,606
-	-	85,544	85,544
-	-	69,378	862,023
-	-	59,142	59,142
-	-	95,924	95,924
-	-	11,725	11,725
-	-	24,971	24,971
-	-	-	2,323,265
-	-	(82,726)	(2,799,639)
<u>\$ 24,876,131</u>	<u>\$ 1,262,003</u>	<u>\$ 1,143,336</u>	<u>\$ 30,854,141</u>
<u>\$ 24,876,131</u>	<u>\$ 2,505,242</u>	<u>\$ 1,660,277</u>	<u>\$ 35,415,024</u>

CITY OF DEVILS LAKE
Devils Lake, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2011

Total <i>Fund Balances</i> for Governmental Funds		\$ 30,854,141
Total <i>net assets</i> reported for governmental activities in the statement of net assets 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	\$ 155,335,816	
Less Accumulated Depreciation	<u>(32,595,089)</u>	
Net Capital Assets		122,740,727
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	\$ 67,549	
Special Assessments	15,613	
Long-Term Uncertified Special Assessments	<u>1,150,721</u>	1,233,883
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 assets.		
		327,862
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 assets. Balances at December 31, 2011 are:		
Special Assessment Bonds Payable	\$ (6,785,000)	
Sales Tax Bonds Payable	(2,500,000)	
Capital Leases Payable	(420,626)	
Retainage Payable	(262,990)	
Interest Payable	(21,456)	
Compensated Absences	<u>(436,664)</u>	
Total Long-Term Liabilities		<u>(10,426,736)</u>
Total Net Assets of Governmental Activities		<u>\$ 144,729,877</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, 2011

	General Fund	Lake Region Growth Fund	Equipment Reserve	Water Supply Constr.	Flood Protection	Infrastructure
Revenues:						
Taxes	\$ 1,242,657	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessment taxes	-	-	-	-	-	-
Sales taxes	1,115,081	-	-	-	-	1,027,048
Licenses, permits and fees	125,671	-	-	-	-	-
Charges for services	214,942	-	-	-	-	-
Intergovernmental	645,191	-	-	911,171	12,523,852	-
Fines, forfeitures and penalties	200,082	-	-	-	-	-
Interest	17,493	365	3,606	-	-	-
Miscellaneous	82,419	1,347	43,000	499	105,045	8,487
Total Revenues	\$ 3,643,536	\$ 1,712	\$ 46,606	\$ 911,670	\$ 12,628,897	\$ 1,035,535
Expenditures:						
Current:						
General government	\$ 1,726,699	\$ -	\$ -	\$ -	\$ -	\$ 98,017
Public safety	1,803,635	-	-	-	-	-
Public works	606,404	-	-	-	-	66,141
Economic development	-	95,105	-	-	-	-
Culture and recreation	16,800	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-
Health and welfare	10,323	-	-	-	-	-
Other	15,716	-	-	-	-	-
Capital outlay	-	-	-	758,719	12,947,291	41,818
Debt Service:						
Principal	57,081	-	-	-	-	-
Interest	17,159	-	-	-	-	-
Total Expenditures	\$ 4,253,817	\$ 95,105	\$ -	\$ 758,719	\$ 12,947,291	\$ 205,976
Excess (Deficiency) of Revenues Over Expenditures	\$ (610,281)	\$ (93,393)	\$ 46,606	\$ 152,951	\$ (318,394)	\$ 829,559
Other Financing Sources (Uses):						
Bond proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond issuance costs	-	-	-	-	-	-
Bond discount	-	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-
Transfers in	1,250,345	207,878	249,917	200,000	-	8,702
Transfers out	(56,085)	(47,200)	(329,652)	-	(165,168)	(618,210)
Total Other Financing Sources and Uses	\$ 1,194,260	\$ 160,678	\$ (79,735)	\$ 200,000	\$ (165,168)	\$ (609,508)
Net Change in Fund Balances	\$ 583,979	\$ 67,285	\$ (33,129)	\$ 352,951	\$ (483,562)	\$ 220,051
Fund Balance - January 1	\$ 1,929,293	\$ 971,770	\$ 1,853,162	\$ (600,863)	\$ (1,985,439)	\$ 697,173
Fund Balance - December 31	\$ 2,513,272	\$ 1,039,055	\$ 1,820,033	\$ (247,912)	\$ (2,469,001)	\$ 917,224

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

Levee Escrow	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 64,085	\$ 552,520	\$ 1,859,262
-	344,953	32,115	377,068
-	207,371	267,085	2,616,585
-	-	-	125,671
-	-	57,351	272,293
17,971,803	-	691,373	32,743,390
-	-	-	200,082
-	-	-	21,464
-	-	56,112	296,909
<u>\$ 17,971,803</u>	<u>\$ 616,409</u>	<u>\$ 1,656,556</u>	<u>\$ 38,512,724</u>
\$ -	\$ 7,670	\$ 268,302	\$ 2,100,688
-	-	56,691	1,860,326
-	-	614,474	1,287,019
-	-	75,000	170,105
-	-	157,188	173,988
-	-	37,881	37,881
-	-	-	10,323
-	-	-	15,716
554,885	-	2,228,787	16,531,500
-	1,620,000	18,187	1,695,268
-	110,394	10,342	137,895
<u>\$ 554,885</u>	<u>\$ 1,738,064</u>	<u>\$ 3,466,852</u>	<u>\$ 24,020,709</u>
<u>\$ 17,416,918</u>	<u>\$ (1,121,655)</u>	<u>\$ (1,810,296)</u>	<u>\$ 14,492,015</u>
\$ 2,500,000	\$ 3,920,000	\$ -	\$ 6,420,000
-	(31,940)	-	(31,940)
-	(58,800)	-	(58,800)
-	17,000	-	17,000
-	1,825,039	3,199,648	6,941,529
-	(3,833,492)	(890,996)	(5,940,803)
<u>\$ 2,500,000</u>	<u>\$ 1,837,807</u>	<u>\$ 2,308,652</u>	<u>\$ 7,346,986</u>
<u>\$ 19,916,918</u>	<u>\$ 716,152</u>	<u>\$ 498,356</u>	<u>\$ 21,839,001</u>
<u>\$ 4,959,213</u>	<u>\$ 545,851</u>	<u>\$ 644,980</u>	<u>\$ 9,015,140</u>
<u>\$ 24,876,131</u>	<u>\$ 1,262,003</u>	<u>\$ 1,143,336</u>	<u>\$ 30,854,141</u>

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, 2011

Net Change in *Fund Balances* - Total Governmental Funds \$ 21,839,001

The change in net assets 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	\$ 1,748,760	
Capital Contribution	51,881,823	
Current Year Depreciation Expense	<u>(1,996,223)</u>	51,634,360

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 assets. (53,565)

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	\$ (12,169)	
Net Increase in Retainage Payable	(262,990)	
Net Decrease in Interest Payable	<u>2,062</u>	(273,097)

The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, 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 assets. This is the amount by which debt repayment exceeded debt proceeds.

Issuance of Long-Term Debt- Bonds	\$ (6,420,000)	
Repayment of Long-Term Debt	<u>1,695,268</u>	(4,724,732)

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	\$ (47,836)	
Decrease in Special Assessments Receivable	(8,898)	
Decrease in Uncertified Special Assessments Receivable	<u>(212,121)</u>	(268,855)

The net income of certain activities of the internal service fund is reported with governmental activities. 49,360

Change in Net Assets of Governmental Activities \$ 68,202,472

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2011

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds		
ASSETS:							
<u>Current Assets:</u>							
Cash and Investments	\$ 515,706	\$ 1,639,996	\$ 530,312	\$ 430,963	\$ 165,233	\$ 3,282,210	\$ 342,341
Utility Billings Receivable	42,666	25,503	36,331	113,696	3,461	221,657	-
Accounts Receivable	-	-	11,497	-	-	11,497	-
Intergovernmental Receivables	-	-	29,873	19,431	-	49,304	-
Prepaid Expense	-	-	-	-	-	-	30,521
Total Current Assets	<u>\$ 558,372</u>	<u>\$ 1,665,499</u>	<u>\$ 608,013</u>	<u>\$ 564,090</u>	<u>\$ 168,694</u>	<u>\$ 3,564,668</u>	<u>\$ 372,862</u>
<u>Noncurrent Assets:</u>							
<i>Capital Assets Not Being Depreciated</i>							
Land	\$ 122,184	-	\$ 17,151	\$ 46,585	-	\$ 185,920	-
Construction in Progress	10,441,210	-	-	12,499	-	10,453,709	-
<i>Capital Assets Being Depreciated</i>							
Buildings	-	-	1,950,822	87,299	-	2,038,121	-
Equipment and Vehicles	77,603	-	295,007	515,226	-	887,836	-
Infrastructure	9,319,283	-	5,166,509	-	-	14,485,792	-
Total Noncurrent Assets	<u>\$ 19,960,280</u>	<u>\$ -</u>	<u>\$ 7,429,489</u>	<u>\$ 661,609</u>	<u>\$ -</u>	<u>\$ 28,051,378</u>	<u>\$ -</u>
Total Assets	<u>\$ 20,518,652</u>	<u>\$ 1,665,499</u>	<u>\$ 8,037,502</u>	<u>\$ 1,225,699</u>	<u>\$ 168,694</u>	<u>\$ 31,616,046</u>	<u>\$ 372,862</u>
LIABILITIES:							
<u>Current Liabilities:</u>							
Accounts Payable	\$ 16,971	-	\$ 7,442	\$ 45,179	-	\$ 69,592	-
Accrued Interest Payable	-	13,510	-	-	797	14,307	-
Bonds Payable	-	-	-	-	60,000	60,000	-
Revenue Drawdown	-	155,000	-	-	-	155,000	-
Compensated Absences	3,345	-	3,381	6,194	-	12,920	-
IBNR Claims	-	-	-	-	-	-	45,000
Total Current Liabilities	<u>\$ 20,316</u>	<u>\$ 168,510</u>	<u>\$ 10,823</u>	<u>\$ 51,373</u>	<u>\$ 60,797</u>	<u>\$ 311,819</u>	<u>\$ 45,000</u>
<u>Noncurrent Liabilities:</u>							
Bonds Payable	-	-	-	-	\$ 195,000	\$ 195,000	-
Revenue Drawdown	-	3,010,000	-	-	-	3,010,000	-
Compensated Absences	30,108	-	30,428	55,748	-	116,284	-
Total Noncurrent Liabilities	<u>\$ 30,108</u>	<u>\$ 3,010,000</u>	<u>\$ 30,428</u>	<u>\$ 55,748</u>	<u>\$ 195,000</u>	<u>\$ 3,321,284</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 50,424</u>	<u>\$ 3,178,510</u>	<u>\$ 41,251</u>	<u>\$ 107,121</u>	<u>\$ 255,797</u>	<u>\$ 3,633,103</u>	<u>\$ 45,000</u>
NET ASSETS:							
Invested in Capital Assets, Net of Related Debt	\$ 19,960,280	-	\$ 7,429,489	\$ 661,609	-	\$ 28,051,378	-
Unrestricted	507,948	(1,513,011)	566,762	456,969	(87,103)	(68,435)	327,862
Total Net Assets	<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>

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 ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds					Total	Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds		
Operating Revenues:							
Charges for Services	\$ 665,116	\$ 281,533	\$ 517,321	\$ 1,387,178	\$ 50,121	\$ 2,901,269	\$ -
Contributions to Self Insurance	-	-	-	-	-	-	826,394
Total Operating Revenues	\$ 665,116	\$ 281,533	\$ 517,321	\$ 1,387,178	\$ 50,121	\$ 2,901,269	\$ 826,394
Operating Expenses:							
Operating Expenses	\$ 378,902	\$ -	\$ 468,330	\$ 565,774	\$ -	\$ 1,413,006	\$ -
Warwick Wells	36,407	-	-	-	-	36,407	-
Inert Landfill	-	-	-	111,695	-	111,695	-
Transfer Station	-	-	-	370,306	-	370,306	-
Health Insurance	-	-	-	-	-	-	781,985
Airport Lot Rent	8,334	-	8,334	6,666	-	23,334	-
Depreciation	384,947	-	592,105	84,924	-	1,061,976	-
Total Operating Expenses	\$ 808,590	\$ -	\$ 1,068,769	\$ 1,139,365	\$ -	\$ 3,016,724	\$ 781,985
Operating Income (Loss)	\$ (143,474)	\$ 281,533	\$ (551,448)	\$ 247,813	\$ 50,121	\$ (115,455)	\$ 44,409
Nonoperating Revenues (Expenses):							
Investment Earnings	\$ 287	\$ -	\$ 287	\$ 287	\$ -	\$ 861	\$ 171
Intergovernmental	-	-	-	5,000	-	5,000	-
Sales and Use Tax	-	-	319,799	-	-	319,799	-
Other Nonoperating Revenues	41,869	-	17,656	75	-	59,600	4,780
Loss on Capital Assets	-	-	(1,246,600)	-	-	(1,246,600)	-
Interest Expense and Service Charges	-	(99,277)	-	-	(8,128)	(107,405)	-
Total Nonoperating Revenues (Expenses)	\$ 42,156	\$ (99,277)	\$ (908,858)	\$ 5,362	\$ (8,128)	\$ (968,745)	\$ 4,951
Income (Loss) Before Contributions and Transfers	\$ (101,318)	\$ 182,256	\$ (1,460,306)	\$ 253,175	\$ 41,993	\$ (1,084,200)	\$ 49,360
Transfers In	\$ 2,727,321	\$ -	\$ -	\$ 213,989	\$ -	\$ 2,941,310	\$ -
Transfers Out	(234,135)	(380,000)	(315,090)	(303,188)	-	(1,232,413)	-
Change in Net Assets	\$ 2,391,868	\$ (197,744)	\$ (1,775,396)	\$ 163,976	\$ 41,993	\$ 624,697	\$ 49,360
Net Assets - January 1	\$ 18,076,360	\$ (1,315,267)	\$ 9,771,647	\$ 954,602	\$ (129,096)	\$ 27,358,246	\$ 278,502
Net Assets - December 31	\$ 20,468,228	\$ (1,513,011)	\$ 7,996,251	\$ 1,118,578	\$ (87,103)	\$ 27,982,943	\$ 327,862

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, 2011

	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>Cash Flows from Operating Activities:</u>							
Receipts from Customers	\$ 666,683	\$ 282,571	\$ 510,813	\$ 1,386,442	\$ 50,082	\$ 2,896,591	\$ 795,873
Payments to Suppliers	(283,601)	-	(364,958)	(663,083)	-	(1,311,642)	(775,985)
Payments to Employees	(143,590)	-	(127,099)	(387,697)	-	(658,386)	-
Other Receipts	-	-	12,673	75	-	12,748	4,780
Net Cash Provided by Operating Activities	<u>\$ 239,492</u>	<u>\$ 282,571</u>	<u>\$ 31,429</u>	<u>\$ 335,737</u>	<u>\$ 50,082</u>	<u>\$ 939,311</u>	<u>\$ 24,668</u>
<u>Cash Flows from Noncapital Financing Activities:</u>							
Transfers In	\$ 30,197	\$ -	\$ -	\$ 201,490	\$ -	\$ 231,687	\$ -
Operating Grant	-	-	-	5,000	-	5,000	-
Sales Tax	-	-	325,339	-	-	325,339	-
Transfers Out	(234,134)	(380,000)	(315,090)	(303,188)	-	(1,232,412)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>\$ (203,937)</u>	<u>\$ (380,000)</u>	<u>\$ 10,249</u>	<u>\$ (96,698)</u>	<u>\$ -</u>	<u>\$ (670,386)</u>	<u>\$ -</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>							
Purchases and Construction of Capital Assets	\$ (25,997)	\$ -	\$ -	\$ (221,490)	\$ -	\$ (247,487)	\$ -
Sale of Capital Assets	41,870	-	-	-	-	41,870	-
Principal Paid on Capital Debt	-	(155,000)	-	-	(60,000)	(215,000)	-
Interest and Fees Paid on Capital Debt	-	(99,600)	-	-	(9,300)	(108,900)	-
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ 15,873</u>	<u>\$ (254,600)</u>	<u>\$ -</u>	<u>\$ (221,490)</u>	<u>\$ (69,300)</u>	<u>\$ (529,517)</u>	<u>\$ -</u>
<u>Cash Flows from Investing Activities:</u>							
Interest Income	\$ 285	\$ -	\$ 290	\$ 287	\$ -	\$ 862	\$ 171
Net Increase (Decrease) in Cash & Cash Equivalents	<u>\$ 51,713</u>	<u>\$ (352,029)</u>	<u>\$ 41,968</u>	<u>\$ 17,836</u>	<u>\$ (19,218)</u>	<u>\$ (259,730)</u>	<u>\$ 24,839</u>
Cash and Cash Equivalents, January 1	<u>\$ 463,993</u>	<u>\$ 1,992,025</u>	<u>\$ 488,344</u>	<u>\$ 413,127</u>	<u>\$ 184,451</u>	<u>\$ 3,541,940</u>	<u>\$ 317,502</u>
Cash and Cash Equivalents, December 31	<u>\$ 515,706</u>	<u>\$ 1,639,996</u>	<u>\$ 530,312</u>	<u>\$ 430,963</u>	<u>\$ 165,233</u>	<u>\$ 3,282,210</u>	<u>\$ 342,341</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>							
Operating Income (Loss)	<u>\$ (143,474)</u>	<u>\$ 281,533</u>	<u>\$ (551,448)</u>	<u>\$ 247,813</u>	<u>\$ 50,121</u>	<u>\$ (115,455)</u>	<u>\$ 44,409</u>
<u>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:</u>							
Depreciation Expense	\$ 384,947	\$ -	\$ 592,105	\$ 84,924	\$ -	\$ 1,061,976	\$ -
Non-operating revenues classified as cash inflows from operations	-	-	12,115	74	-	12,189	4,780
Change in Assets and Liabilities:							
Utility Billings Receivable	1,568	1,038	1,899	(734)	(39)	3,732	-
Accounts Receivable	-	-	(8,405)	-	-	(8,405)	-
Intergovernmental Receivables	-	-	558	-	-	558	-
Prepaid Expense	-	-	-	-	-	-	(30,521)
Compensated Absences	(10,320)	-	405	6,212	-	(3,703)	-
Accounts Payable	6,771	-	(15,800)	(2,552)	-	(11,581)	-
IBNR Claims	-	-	-	-	-	-	6,000
Net Cash Provided by Operating Activities	<u>\$ 239,492</u>	<u>\$ 282,571</u>	<u>\$ 31,429</u>	<u>\$ 335,737</u>	<u>\$ 50,082</u>	<u>\$ 939,311</u>	<u>\$ 24,668</u>

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, 2011

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 assets 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.

Equipment Reserve Fund. This fund accounts for resources used for equipment replacement for the city.

Water Supply Construction Fund. This fund is used to account for financial resources used for the construction of Phase I of the Water Source Replacement Project.

Flood Protection Fund. This fund is used to account for financial resources used for the construction of flood related projects for the purpose of protecting the City from loss.

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

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

Levee Escrow Fund. This fund is an off book account used to account for financial resources used for the future levee system that will be built and maintained by the City of Devils Lake.

Debt Service Funds combined. These funds are used for the Debt service of bonds issued by the City of Devils Lake.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private sector guidance.

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.

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

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 plant and equipment. Assets are reported in the governmental activities column in the government-wide financial 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 prior to July 1, 1980 are reported at historical cost. 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

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 was as of July 1, 2009. If the terminated employee had a start date before July 1, 2009, 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 Assets Equity

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 minimum fund balance is designed to protect against cash flow shortfalls related to timing of projected revenues and to maintain a budget stabilization commitment.

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, 2009 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, 2010. 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:

CLASSIFICATION	DEFINITION	EXAMPLES
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 School District Board of Directors. 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.

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

The City of Devils Lake reports non-spendable fund balance, restricted fund balances, committed fund balance and unassigned fund balances at December 31, 2011.

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.

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 Assets Equity:

Invested in capital assets, net of related debt, is reported for capital assets less accumulated depreciation and any related debt (bonds payable) issued to construct them. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

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.

Restrictions of net assets equity, shown in the Statement of Net Assets, are due to restricted tax levies and bond indenture requirements for capital projects and for various other functions as outlined in the statement of net assets.

Unrestricted net assets equity is primarily unrestricted amounts related to the general fund & enterprise funds, and amounts reclassified for negative cash fund balances from the capital projects funds. The unrestricted net assets are 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
<u>Major Funds:</u>			
General Fund - Revenues	\$4,221,274	\$ 623,626	\$4,844,900
Equipment Reserve Fund	242,917	53,606	296,523
Lake Region Growth Fund	209,324	7,509	216,833
Debt Service Fund	1,915,237	4,466,872	6,382,109
Water Supply Construction	-	1,111,671	1,111,371
Flood Protection	-	12,628,898	12,628,898
<u>Non-Major Funds:</u>			
Non-Major Special Revenue	1,375,684	468,144	1,843,828
Non-Major Capital Projects	-	3,003,968	3,003,968
Internal Service Fund	824,982	(11,826)	813,156

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund- Expenditures	\$4,221,722	\$ 92,307	\$4,314,029
Lake Region Growth	181,188	(28,659)	152,529
Water Supply Construction	-	1,084,847	1,084,847
Debt Service Fund	2,079,883	3,454,998	5,534,881
Equipment Reserve	306,000	23,652	329,652
Flood Protection	-	13,117,612	13,117,612
Non-Major Funds:			
Non-Major Special Revenue	1,421,212	403,817	1,825,029
Non-Major Capital Projects	-	2,560,187	2,560,187
Internal Service Fund	820,000	(44,016)	775,984

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, 2011, the City's carrying amount of deposits was \$13,731,412 and the bank balances totaled \$13,861,288. Of the bank balances, \$543,139 was covered by Federal Depository Insurance. Of the bank balances, \$4,431,016 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. Of the remaining bank balances, \$8,887,134 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, 2011, the city held certificates of deposit totaling \$2,003,798.

CITY OF DEVILS LAKENotes 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, 2011. Of the amount withdrawn, only a portion of it was actually spent by the Corps of Engineers during this period ending December 31, 2011. The remaining amount of \$20,445,115 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 four 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.

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

NOTE 10: INTERGOVERNMENTAL RECEIVABLE

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

NOTE 11: 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 city has the following loan activity for the year ended December 31, 2011.

Name of Entity	1-1-11	Issued	Payments	12-31-11
Dennis Deutsch- Mini Mall	\$ 31,366	\$ -	\$4,070	\$ 27,296
DL Aero Service- Tanner S.	12,844	-	3,171	9,673
Pugsley's	86,051	-	-	86,051
Goldade Processing	34,498	-	-	34,498
Black Magic Rod & Custom	6,667	-	-	6,667
Jason Mitchell	10,224	-	-	10,224
Flatlander Foods Inc.	90,000	-	-	90,000
Totals	\$271,650	\$ -	\$7,241	\$264,409

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:

Fund	1-1-11	Issued	Payments	12-31-11
Airport Hanger	\$132,596	\$ -	\$19,494	\$113,102
Sales and Use Tax	99,694	-	22,789	76,905
Totals	\$232,290	\$ -	\$42,283	\$190,007

NOTE 12: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2011:

PRIMARY GOVERNMENT: Governmental Activities:	Balance 1-1-11	Increases	Decreases	Transfers	Balance 12-31-11
<i>Capital assets not being depreciated:</i>					
Land	\$ 1,457,007	\$ 973,039	\$(41,900)	\$ -	\$ 2,388,146
Construction in Progress	25,818,084	51,802,434	-	-	77,620,518
Total Capital Assets, Not Being Depreciated	\$27,275,091	\$52,775,473	\$(41,900)	\$ -	\$ 80,008,664
<i>Capital assets being depreciated:</i>					
Buildings	\$ 3,249,722	\$ 29,497	\$ -	\$ -	\$ 3,279,219
Equipment	3,730,144	111,221	(54,298)	-	3,787,067
Infrastructure	67,546,474	714,393	-	-	68,260,867
Total Capital Assets, Being Depreciated	\$74,526,340	\$ 855,111	\$(54,298)	\$ -	\$ 75,327,153
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 1,933,234	\$ 82,925	\$ -	\$ -	\$ 2,016,159
Equipment	2,477,079	279,555	(42,632)	-	2,714,002
Infrastructure	26,231,186	1,633,743	-	-	27,864,929
Total Accumulated Depreciation	\$30,641,499	\$ 1,996,223	\$(42,632)	\$ -	\$ 32,595,090
Total Capital Assets Being Depreciated, Net	\$43,884,841	\$ (1,141,111)	\$(11,666)	\$ -	\$ 42,732,063
Governmental Activities Capital Assets, Net	\$71,159,932	\$51,634,360	\$(53,566)	\$ -	\$122,740,727

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

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

Governmental Activities	Amount
General Government	\$ 32,899
Public Safety	186,443
Public Works	107,598
Infrastructure	1,633,743
Culture/Recreation	35,540
Total	\$1,996,223

Business Type	Balance				Balance
Enterprise Activities	1-1-11	Increases	Decreases	Transfers	12-31-11
<i>Capital assets not being depreciated:</i>					
Land	\$ 185,920	\$ -	\$ -	\$ -	\$ 185,920
Construction in Progress	9,336,458	1,117,251	-	-	10,453,709
Total Capital Assets, Not Being Depreciated	\$ 9,522,378	\$1,117,251	\$ -	\$ -	\$10,639,629
<i>Capital assets being depreciated:</i>					
Buildings	\$ 8,820,127	\$ -	\$(2,764,301)	\$ -	\$ 6,055,826
Equipment	2,636,220	247,487	(93,438)	9,100	2,799,369
Infrastructure	22,726,556	1,592,371	-	-	24,318,927
Total Capital Assets, Being Depreciated	\$34,182,903	\$1,839,858	\$(2,857,739)	\$9,100	\$33,174,122
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 5,290,520	\$ 244,886	\$(1,517,701)	\$ -	\$ 4,017,705
Equipment	1,839,822	165,149	(93,438)	-	1,911,533
Infrastructure	9,172,093	661,042	-	-	9,833,135
Total Accumulated Depreciation	\$16,302,435	\$1,071,077	\$(1,611,139)	\$ -	\$15,762,373
Total Capital Assets Being Depreciated, Net	\$17,880,468	\$ 768,781	\$(1,246,600)	\$9,100	\$17,411,749
<i>Enterprise Activities Capital Assets, Net</i>	\$27,402,846	\$1,886,032	\$(1,246,600)	\$9,100	\$28,051,378

Depreciation expense was charged to the water fund totaling \$384,948, \$84,924 was charged to the sanitation fund and \$592,105 was charged to the sewer fund for a total of \$1,071,077.

Component Unit:	Balance				Balance
Airport	1-1-11	Increases	Decreases	Transfers	12-31-11
<i>Capital assets not being depreciated:</i>					
Land	\$ 294,933	\$ -	\$ -	\$ -	\$ 294,933
Construction in Progress	5,107,818	1,079,476	-	-	6,187,294
Total Capital Assets, Not Being Depreciated	\$5,402,751	\$1,079,476	\$ -	\$ -	\$ 6,482,227
<i>Capital assets being depreciated:</i>					
Buildings	\$2,007,740	\$ -	\$ -	\$ -	\$ 2,007,740
Equipment	1,460,371	-	-	-	1,460,371
Infrastructure	5,206,841	-	-	-	5,206,841
Total Capital Assets, Being Depreciated	\$8,674,952	\$ -	\$ -	\$ -	\$ 8,674,952
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 130,034	\$ 40,155	\$ -	\$ -	\$ 170,189
Equipment	1,211,908	83,894	-	-	1,295,802
Infrastructure	3,182,672	61,729	-	-	3,244,400
Total Accumulated Depreciation	\$4,524,614	\$ 185,778	\$ -	\$ -	\$ 4,710,391
Total Capital Assets Being Depreciated, Net	\$4,150,338	\$ (185,778)	\$ -	\$ -	\$ 3,964,561
<i>Airport Capital Assets, Net</i>	\$9,553,089	\$ 893,398	\$ -	\$ -	\$10,446,788

NOTE 13: PREPAID EXPENSE

Prepaid expense is reported in the internal service fund totaling \$30,521 and in the net assets statement for a negative payroll liability amount (overpayment for benefits).

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

NOTE 14: ADVANCES TO/FROM OTHER FUNDS

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.

NOTE 15: DUE TO/FROM OTHER FUNDS

Due to/from other funds represents the amount of negative cash in the water supply construction fund (\$239,456) and flood protection fund (\$2,180,286) covered by the general fund (\$239,456) and levee escrow fund (\$2,180,286).

NOTE 16: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2011:

Fund	Transfer In	Transfer Out
General Fund	\$1,305,240	\$ 56,085
Equipment Reserve	249,917	329,652
Lake Region Growth	207,878	47,200
Water Supply Construction	200,000	-
Flood Protection 1-96	-	165,168
Infrastructure	8,702	609,723
Highway Distribution	184,093	110,000
Economic Development	-	207,878
City Share Spec. Assess.	-	143,587
Cemetery	5,000	17,058
Weed Control	-	20,000
Special Assessment Prop.	-	52
Special Assmt. Deficiency	-	50,000
Library	-	1,200
Planning	-	1,200
Parking Authority	52	1,200
Shade Tree	-	1,900
Job Development Authority	-	1,200
Law Enforcement Grant	2,319	-
Asset Forfeiture Buy Fund	-	2,319
Temporary Employees Fund	75,143	-
Land Trust Escrow	987,101	-
City Beautification	20,000	2,000
Airport Hangar	36,000	26,124
Sales and Use Tax	-	28,771
Penalty and Interest Spec.	-	10,000
Non-Bonded Debt Service	-	17,826
Ref Imp. Bonds 2010	385,804	-
Ref Imp. Bonds 2006	155,127	242,256
Ref Imp. Bonds 2008	40,568	84,183
Ref Imp. Bonds 2011	76,439	3,479,227

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CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

Fund	Transfer In	Transfer Out
Sales Tax Bonds 2010	\$ 180,000	\$ -
Highway 2 Landscaping	-	9,363
College Dr. Hwy/street	25,403	2,704
Street Improvement 35-10	623,821	74,925
Street Improvement 36-11	35,982	4,963
Prairie View Bike Path	18,860	18,860
Water & Sewer - Stoneridge	501,000	-
Watermain Replace. 18-10	1,592,371	220,588
2010 Curb, Gutter, Sidewalk	18,221	-
2011 Curb, Gutter, Sidewalk	52,894	-
Water Fund	30,197	234,135
Water Source Replacement	-	380,000
Sewer Fund	-	315,090
Sanitation	201,490	303,188
Totals	\$7,219,624	\$7,219,624

NOTE 17: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed to individuals and to entities for goods received and services rendered prior to December 31, 2011.

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 \$45,000. Blue Cross/Blue Shield, the plan administrator, has calculated this reserve requirement.

NOTE 19: DEFERRED REVENUE

Deferred revenue in the fund statements as of December 31, 2011 for the City consisted of property taxes receivable and special assessments receivable.

NOTE 20: LONG-TERM LIABILITIES

During the year ended December 31, 2011, the following changes occurred in long-term liabilities of the city:

PRIMARY GOVERNMENT

Governmental Activities:	Balance 1-1-11	Increases	Decreases	Balance 12-31-11	Due Within One Year
Special Assessment Bonds	\$4,485,000	\$3,920,000	\$1,620,000	\$ 6,785,000	\$685,000
Sales Tax Revenue Bond	-	2,500,000	-	2,500,000	100,000
Capital Leases	495,894	-	75,268	420,626	78,585
Compensated Absences *	424,495	12,169	-	436,664	43,666
Total Governmental Activities	\$5,405,389	\$6,432,169	\$1,695,268	\$10,142,290	\$907,251

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

Business-Type Activities:	Balance 1-1-11	Increases	Decreases	Balance 12-31-11	Due Within One Year
Landfill Closure Bonds	\$ 315,000	\$ -	\$ 60,000	\$ 255,000	\$ 60,000
Revenue Bond Drawdowns	3,320,000	-	155,000	3,165,000	155,000
Compensated Absences *	132,906	-	3,702	129,204	12,920
Total Business-Type Activities	\$3,767,906	\$ -	\$218,702	\$3,549,204	\$227,920

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

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

Component Unit – Airport Authority:

Component Unit-Airport:	Balance 1-1-11	Increases	Decreases	Balance 12-31-10	Due Within One Year
Compensated Absences *	\$22,250	\$6,722	\$ -	\$28,972	\$2,897

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

Governmental Activities – 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%.	\$ 615,000
\$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%.	2,025,000
\$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 2.85 to 3.65%.	<u>225,000</u>
Total Special Assessment Bonds	<u>\$6,785,000</u>

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.	<u>\$2,500,000</u>
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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.	\$ 59,914
\$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>360,712</u>
Total Capital Leases	<u>\$ 420,626</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>\$3,165,000</u>
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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>\$ 255,000</u>
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CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

The annual debt service requirements for all long-term debt outstanding, except compensated absences as of December 31, 2011, are as follows:

Governmental Activities:

GOVERNMENTAL ACTIVITIES						
Year Ending December 31	Special Assessment Bonds		Capital Lease		Sales Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 685,000	\$147,608	\$ 78,585	\$17,554	\$ 100,000	\$ 55,556
2013	775,000	143,290	82,048	14,091	105,000	60,000
2014	810,000	109,936	85,664	10,475	105,000	57,375
2015	780,000	79,215	67,540	6,700	110,000	54,750
2016	590,000	70,900	70,442	3,799	110,000	52,000
2017-2021	1,940,000	234,931	36,347	772	610,000	216,625
2012-2026	1,010,000	92,441	-	-	710,000	135,375
2027-2030	195,000	2,925	-	-	650,000	41,250
TOTAL	\$6,785,000	\$881,246	\$420,626	\$53,391	\$2,500,000	\$672,931

Business-Type Activities:

GOVERNMENTAL ACTIVITIES				
Year Ending December 31	Revenue Bonds		Water Drawdown	
	Principal	Interest	Principal	Interest
2012	\$ 60,000	\$ 6,375	\$ 155,000	\$ 79,125
2013	65,000	4,875	160,000	75,250
2014	65,000	3,250	165,000	71,250
2015	65,000	1,625	170,000	67,125
2016	-	-	175,000	62,875
2017-2021	-	-	965,000	245,875
2022-2026	-	-	1,115,000	117,750
2027-2030	-	-	260,000	6,500
TOTAL	\$255,000	\$16,125	\$3,165,000	\$725,750

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 2011. The future minimum lease payments for both leases are as follows:

City of Devils Lake / Component Unit- Library		
Year Ending December 31	Total Payments	
	City	Library
2012	\$2,784	\$ 545
2013	2,552	545
2014	-	545
2015	-	409
TOTAL	\$5,336	\$2,044

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

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 \$13,000 of the employee's salary to the plan. The city's contribution to the plan for the years ending December 31, 2011, 2010 and 2009 were \$215,257, \$208,390, and, \$200,545, 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, 2011, 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 \$4,640,000.

Community Development Block Grants:

From time to time, the city has obtained Community Development Block Grants (CDBG) 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, 2011, there were 2 CDBG loans outstanding, with an aggregate principal amount payable of \$145,667.

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 (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRIF for its general liability, automobile, and public assets insurance coverage. The coverage by NDRIF is limited to losses of 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.

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

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 \$1,000,000 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.

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, 2011, is as follows:

CONDENSED STATEMENT OF NET ASSETS	
<u>Assets:</u>	
Restricted Assets-Cash	\$ 165,233
Restricted Assets- Utility Rec.	3,461
<u>Liabilities:</u>	
Current Liabilities	\$ (61,594)
Non-Current Liabilities	(195,000)
Total Liabilities	\$(256,594)
<u>Net Assets:</u>	
Restricted	\$ (87,900)

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	
Charges for Services	\$ 50,122
Operating Expense	-
Operating Income	\$ 50,122
<u>Non-operating Expenses:</u>	
Interest & Fees Expense	\$ (8,925)
Change in Net Assets	\$ 41,197
Net Assets - January 1	\$(129,096)
Net Assets - December 31	\$ (87,899)

CITY OF DEVILS LAKE

Notes to the Financial Statements - Continued

CONDENSED STATEMENT OF CASH FLOWS	
Net cash provided (used) by:	
Operating activities	\$ 50,082
Noncapital financing activities	(69,300)
Net increase (decrease)	\$ (19,218)
Beginning Cash	\$ 184,451
Ending Cash	\$ 165,233

NOTE 26: FUND DEFICITS

The following funds were in a deficit position at December 31, 2011:

Fund	Amount
Water Supply Construction	\$ (247,912)
Flood Protection 1-96	(2,469,001)
Safe Routes to School	(37,886)
Street Improvement #35-10	(10,971)
Storm Sewer Improvement #09-08	(97,862)
2011 Curb, Gutter, and Sidewalk	(35,517)

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, 2011:

Governmental Activities:

Project	Original Contract	Change Orders	Total Contract	Total Completed	Remaining Balance	Retainage
Water Supply Construction	\$15,161,337	\$17,897	\$15,179,234	\$15,029,074	\$ 150,160	\$209,222
Golf Course Realignment	1,385,000	11,799	1,396,799	483,914	912,885	53,768
Street Improvement #35-10	194,683	13,638	208,501	126,263	82,238	-
Stone Ridge	245,174	-	245,174	-	245,174	-
Totals	\$16,986,374	\$43,334	\$17,029,708	\$15,639,251	\$1,390,457	\$262,990

Component Unit Activities:

Project	Original Contract	Change Orders	Total Contract	Total Completed	Remaining Balance	Retainage
Airport #22	\$ 874,735	\$ 37,720	\$ 912,455	\$ 873,785	\$ 38,670	\$ 1,307
Airport #24	1,754,223	46,931	1,801,154	1,715,725	88,429	-
Airport #25	3,191,175	242,020	3,433,195	3,183,962	249,233	-
Airport #26	655,595	5,199	660,794	611,523	49,271	-
Airport #27	736,842	22,408	759,250	68,165	691,085	18,388
Airport #28	161,907	-	161,907	152,731	9,176	-
Airport #29	2,248,619	-	2,248,619	537,553	1,711,066	-
Totals	\$9,623,096	\$354,278	\$9,977,374	\$7,140,444	\$2,836,930	\$19,695,

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, 2011. 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: PRIOR PERIOD ADJSUTMENTS

Prior period errors were noted in beginning net assets relating to construction in progress from prior periods. The federal portion of the City embankment raise was not included in construction in progress for 2009 and 2010. The error is corrected and future periods will include the federal portion of the project.

Governmental Activities (County):	Amounts
Beginning Net Assets, as previously reported	\$51,831,722
Adjustments to restate the January 1, 2011 Net Assets:	
Adjustment for Construction in Progress beginning balance	24,695,683
Net Assets January 1, as restated	<u>\$76,527,405</u>

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 1,085,011	\$ 1,231,033	\$ 1,242,657	\$ 11,624
Sales Taxes	988,000	1,076,151	1,115,081	38,930
Licenses, Permits and Fees	85,000	125,670	125,671	1
Charges for Services	184,100	214,942	214,942	-
Intergovernmental	483,500	604,478	645,191	40,713
Fines, Forfeitures and Penalties	221,700	200,083	200,082	(1)
Interest	30,000	4,881	17,493	12,612
Miscellaneous	68,000	80,421	82,419	1,998
Total Revenues	\$ 3,145,311	\$ 3,537,659	\$ 3,643,536	\$ 105,877
<u>Expenditures:</u>				
Current:				
General Government	\$ 1,617,820	\$ 1,714,160	\$ 1,726,699	\$ (12,539)
Public Safety	1,824,783	1,803,636	1,803,635	1
Public Works	605,828	606,403	606,404	(1)
Health and Welfare	10,300	10,323	10,323	-
Culture & Recreation	16,800	16,800	16,800	-
Other	16,000	15,716	15,716	-
Debt Service:				
Principal	57,081	57,081	57,081	-
Interest	17,159	17,159	17,159	-
Total Expenditures	\$ 4,165,771	\$ 4,241,278	\$ 4,253,817	\$ (12,539)
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,020,460)	\$ (703,619)	\$ (610,281)	\$ 93,338
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 1,075,963	\$ 1,307,241	\$ 1,250,345	\$ (56,896)
Transfers Out	(72,751)	(72,751)	(56,085)	16,666
Total Other Financing Sources and Uses	\$ 1,003,212	\$ 1,234,490	\$ 1,194,260	\$ (40,230)
Net Change in Fund Balances	\$ (17,248)	\$ 530,871	\$ 583,979	\$ 53,108
Fund Balances - January 1	\$ 1,929,293	\$ 1,929,293	\$ 1,929,293	\$ -
Fund Balances - December 31	\$ 1,912,045	\$ 2,460,164	\$ 2,513,272	\$ 53,108

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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest Income	\$ 2,000	\$ 365	\$ 365	-
Miscellaneous	20,324	8,588	1,347	(7,241)
Total Revenues	\$ 22,324	\$ 8,953	\$ 1,712	\$ (7,241)
<u>Expenditures:</u>				
<u>Current:</u>				
Economic Development	\$ 133,988	\$ 105,329	\$ 95,105	\$ 10,224
Excess (Deficiency) of Revenues Over Expenditures	\$ (111,664)	\$ (96,376)	\$ (93,393)	\$ 2,983
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 187,000	\$ 207,878	\$ 207,878	\$ -
Transfers Out	(47,200)	(47,200)	(47,200)	-
Total Other Financing Sources and Uses	\$ 139,800	\$ 160,678	\$ 160,678	\$ -
Net Change in Fund Balances	\$ 28,136	\$ 64,302	\$ 67,285	\$ 2,983
Fund Balances - January 1	\$ 971,770	\$ 971,770	\$ 971,770	\$ -
Fund Balances - December 31	\$ 999,906	\$ 1,036,072	\$ 1,039,055	\$ 2,983

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
EQUIPMENT RESERVE FUND
For the Year Ended December 31, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest	\$ 5,000	\$ 3,606	\$ 3,606	\$ -
Miscellaneous	33,000	33,000	33,000	-
Total Revenues	<u>\$ 38,000</u>	<u>\$ 36,606</u>	<u>\$ 36,606</u>	<u>\$ -</u>
<u>Expenditures:</u>				
General Government	\$ -	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 38,000</u>	<u>\$ 36,606</u>	<u>\$ 36,606</u>	<u>\$ -</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 204,917	\$ 259,917	\$ 259,917	\$ -
Transfers Out	(306,000)	(329,652)	(329,652)	-
Total Other Financing Sources and Uses	<u>\$ (101,083)</u>	<u>\$ (69,735)</u>	<u>\$ (69,735)</u>	<u>\$ -</u>
Net Change in Fund Balances	<u>\$ (63,083)</u>	<u>\$ (33,129)</u>	<u>\$ (33,129)</u>	<u>\$ -</u>
Fund Balances - January 1	<u>\$ 1,853,162</u>	<u>\$ 1,853,162</u>	<u>\$ 1,853,162</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 1,790,079</u></u>	<u><u>\$ 1,820,033</u></u>	<u><u>\$ 1,820,033</u></u>	<u><u>\$ -</u></u>

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, 2011

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 10th).
- 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

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2011

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Cash and Investments	\$ 920,772	\$ 508,256	\$ 1,429,028
Accounts Receivable	2,137	-	2,137
Intergovernmental Receivable	94,761	109,386	204,147
Taxes Receivable	24,965	-	24,965
Total Assets	\$ 1,042,635	\$ 617,642	\$ 1,660,277
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities:</u>			
Accounts Payable	\$ 36,126	\$ 42,686	\$ 78,812
Advance Due to Other Funds	113,102	-	113,102
Due to Other Funds	23,966	276,096	300,062
Deferred Revenues	24,965	-	24,965
Total Liabilities	\$ 198,159	\$ 318,782	\$ 516,941
<u>Fund Balances:</u>			
<u>Restricted:</u>			
Debt Service	\$ 132,680	\$ -	\$ 132,680
Capital Project Funds	-	298,860	298,860
General Government	167,486	-	167,486
Public Safety	-	-	-
Public Works/Streets	246,746	-	246,746
Conservation of Natural Resources	33,606	-	33,606
Culture & Recreation	85,544	-	85,544
Economic Development	69,378	-	69,378
Emergency	59,142	-	59,142
Other Special Purposes	95,924	-	95,924
<u>Committed:</u>			
Asset Forfeiture Buy Fund	11,725	-	11,725
City Beautification	24,971	-	24,971
<u>Unassigned:</u>			
Negative Fund Balances	(82,726)	-	(82,726)
Total Fund Balances	\$ 844,476	\$ 298,860	\$ 1,143,336
Total Liabilities and Fund Balances	\$ 1,042,635	\$ 617,642	\$ 1,660,277

CITY OF DEVILS LAKE
Devils Lake, North Dakota

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2011

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 552,520	\$ -	\$ 552,520
Special Assessments	21,424	10,691	32,115
Sales Taxes	267,085	-	267,085
Intergovernmental	581,987	109,386	691,373
Charges for Services	50,501	6,850	57,351
Miscellaneous	56,112	-	56,112
Total Revenues	<u>\$ 1,529,629</u>	<u>\$ 126,927</u>	<u>\$ 1,656,556</u>
<u>Expenditures:</u>			
Current:			
General Government	\$ 268,302	\$ -	\$ 268,302
Public Safety	56,691	-	56,691
Public Works	614,474	-	614,474
Culture and Recreation	157,188	-	157,188
Economic Development	75,000	-	75,000
Conservation of Natural Resources	37,881	-	37,881
Capital Outlay	-	2,228,787	2,228,787
Debt Service:			
Principal	18,187	-	18,187
Interest	10,342	-	10,342
Total Expenditures	<u>\$ 1,238,065</u>	<u>\$ 2,228,787</u>	<u>\$ 3,466,852</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 291,564</u>	<u>\$ (2,101,860)</u>	<u>\$ (1,810,296)</u>
<u>Other Financing Sources (Uses):</u>			
Transfers In	\$ 322,608	\$ 2,877,040	\$ 3,199,648
Transfers Out	(559,594)	(331,402)	(890,996)
Total Other Financing Sources and Uses	<u>\$ (236,986)</u>	<u>\$ 2,545,638</u>	<u>\$ 2,308,652</u>
Net Change in Fund Balances	<u>\$ 54,578</u>	<u>\$ 443,778</u>	<u>\$ 498,356</u>
Fund Balances - January 1	<u>\$ 789,898</u>	<u>\$ (144,918)</u>	<u>\$ 644,980</u>
Fund Balances - December 31	<u>\$ 844,476</u>	<u>\$ 298,860</u>	<u>\$ 1,143,336</u>

CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)
For the Year Ended December 31, 2011

	Balance 1-1-11	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-11
GENERAL FUND	\$ 1,476,720.25	\$ 3,539,659.27	\$ 1,305,240.09	\$ -	\$ 56,085.00	\$ 4,257,943.87	\$ 2,007,590.74
MAJOR SPECIAL REVENUE FUNDS:							
EQUIPMENT RESERVE	\$ 1,853,162.09	\$ 46,605.72	\$ 249,917.16	\$ -	\$ 329,652.00	\$ -	\$ 1,820,032.97
LAKE REGION GROWTH	710,343.33	8,952.78	207,877.92	-	47,200.00	105,329.12	774,644.91
WATER SUPPLY CONSTRUCTION (Major)	(274,735.19)	911,670.64	200,000.00	-	-	1,084,847.37	(247,911.92)
FLOOD PROTECTION 1-96	(1,980,287.29)	12,628,897.28	-	-	165,167.69	12,952,443.33	(2,469,001.03)
INFRASTRUCTURE	628,474.93	991,191.93	8,702.34	-	609,722.85	205,976.77	812,669.58
OFF BOOK ACCOUNT-BND (LEEVE ESCROW)	4,959,212.76	17,971,803.00	-	2,500,000.00	-	554,885.17	24,876,130.59
MAJOR DEBT SERVICE FUNDS:							
SALES & USE TAX	\$ 32,215.98	\$ 28,319.76	\$ -	\$ -	\$ 28,771.00	\$ -	\$ 31,764.74
PENALTY & INTEREST SPECIAL ASSMT	85,713.43	4,554.85	-	-	10,000.00	-	80,268.28
NON-BONDED DEBT SERVICE	11,119.10	36,050.18	-	-	17,826.27	-	29,343.01
SEWER SEPARATION #1	172,585.34	3,226.71	-	-	-	-	175,812.05
REF IMP BONDS 2006	247,486.99	159,304.80	155,127.00	-	242,256.29	319,662.50	-
REF IMP BONDS 2008	63,977.42	81,206.92	40,568.00	-	84,182.83	101,569.51	-
SALES TAX REV BONDS 2010	(4,058.97)	169,918.61	180,000.00	-	-	1,037.40	344,822.24
REF IMP BONDS 2010	24,728.40	141,693.85	385,804.00	-	-	375,850.26	176,375.99
REF IMP BONDS 2011	-	-	76,439.12	3,920,000.00	3,479,227.06	58,800.00	458,412.06
Northland Trust Escrow	-	-	987,100.68	(30,902.11)	-	935,000.00	21,198.57
TOTAL MAJOR DEBT SERVICE FUNDS	\$ 633,767.69	\$ 624,275.68	\$ 1,825,038.80	\$ 3,889,097.89	\$ 3,862,263.45	\$ 1,791,919.67	\$ 1,317,996.94
TOTAL MAJOR FUNDS	\$ 8,006,658.57	\$ 36,723,056.30	\$ 3,796,776.31	\$ 6,389,097.89	\$ 5,070,090.99	\$ 20,953,345.30	\$ 28,892,152.78
NONMAJOR SPECIAL REVENUE FUNDS:							
HIGHWAY DISTRIBUTION	\$ 200,892.41	\$ 514,345.19	\$ 184,093.33	\$ -	\$ 110,000.00	\$ 585,644.77	\$ 203,686.16
CITY SHARE SPECIAL ASSESSMENT	25,457.74	150,256.30	-	-	143,587.00	-	32,127.04
ADVERTISING	32,658.46	880.97	-	-	-	8,304.00	25,235.43
EMERGENCY	59,142.42	-	-	-	-	-	59,142.42
INSURANCE RESERVE (PREM)	34,679.06	72,122.25	-	-	-	66,348.00	40,453.31
CEMETERY	101,368.66	107,604.82	5,000.00	-	17,057.88	100,991.84	95,923.76
TEMPORARY EMPLOYEES FUND	-	-	75,142.88	-	-	-	75,142.88
SPECIAL ASSESSMENT CITY PROPERTY	45,659.63	10,488.62	-	-	52.34	14,196.18	41,899.73
PUBLIC BUILDINGS	2,968.89	5,428.61	-	-	-	1,353.76	7,043.74
WEED CONTROL	34,291.13	24,343.44	-	-	20,000.00	5,220.59	33,413.98
ECONOMIC DEVELOPMENT	-	254,877.92	-	-	207,877.92	47,000.00	-
LAW ENFORCEMENT BLOCK GRANT	-	4,307.26	2,319.30	-	-	6,626.56	-
FIRE DEPT. HOMELAND SECURITY GRANT	-	21,828.67	-	-	-	21,828.67	-
POLICE DEPT. HOMELAND SECURITY	-	27,423.07	-	-	-	27,423.07	-
ASSET FORFEITURE BUY FUND	14,044.29	-	-	-	2,319.30	-	11,724.99
ND DOT POLICE GRANTS	-	7,374.29	-	-	-	7,374.29	-
SPECIAL ASSESSMENT DEFICIENCY	56,302.83	52,350.63	-	-	50,000.00	-	58,653.46
LIBRARY	48,429.18	163,165.98	-	-	1,200.00	157,215.46	53,179.70
PLANNING	72,166.60	413.13	-	-	1,200.00	375.70	71,004.03
PARKING AUTHORITY	20,467.78	31,623.79	52.34	-	1,200.00	27,194.23	23,749.68
SHADE TREE	37,272.73	34,872.51	-	-	1,900.00	37,880.90	32,364.34
CITY BEAUTIFICATION	20,661.94	5,102.55	20,000.00	-	2,000.00	18,793.91	24,970.58
DL HISTORICAL PRESERVATION	1,781.11	-	-	-	-	1,589.50	191.61
JOB DEVELOPMENT AUTHORITY	37,106.88	31,598.10	-	-	1,200.00	28,000.00	39,504.98
SAAF GRANT	-	812.55	-	-	-	812.55	-
AIRPORT HANGER	20,500.85	-	36,000.00	-	26,124.00	-	30,376.85
TOTAL NONMAJOR SPECIAL REVENUE FUNDS	\$ 865,852.59	\$ 1,521,220.65	\$ 322,607.85	\$ -	\$ 585,718.44	\$ 1,239,316.86	\$ 884,645.79
NONMAJOR CAPITAL PROJECTS FUNDS:							
SAFE ROUTE TO SCHOOL - 12TH AVE	\$ (44,736.40)	\$ 6,850.69	\$ -	\$ -	\$ -	\$ -	\$ (37,885.71)
PRAIRIE VIEW BIKE PATH	-	117,872.54	18,859.61	-	18,859.61	117,872.54	-
HWY 2 LANDSCAPING TE GRANT	13,488.41	-	-	-	9,362.50	4,125.91	-
COLLEGE DR/HWY 19/HWY 20/10TH ST	11,102.34	-	25,403.30	-	2,704.12	33,801.52	-
STR IMPR 35-10	-	-	623,821.57	-	74,924.74	559,867.57	(10,970.74)
STR IMPR 36-11	-	-	35,981.67	-	4,962.99	31,018.68	-
STORM SEWER IMPR #09-08 (5TH AVE)	(97,861.58)	-	-	-	-	-	(97,861.58)
WATER & SEWER - STONE RIDGE	-	-	501,000.00	-	-	19,904.82	481,095.18
WATERMAIN REPLACEMENT 18-10	-	-	1,592,371.34	-	220,588.11	1,371,783.23	-
2010 CURB, GUTTER & SIDEWALK	(26,911.06)	8,805.51	18,221.07	-	-	115.52	-
2011 CURB, GUTTER & SIDEWALK	-	1,885.51	52,894.44	-	-	90,297.24	(35,517.29)
TOTAL NONMAJOR CAPITAL PROJECT FUNDS	\$ (144,918.29)	\$ 135,414.25	\$ 2,868,553.00	\$ -	\$ 331,402.07	\$ 2,228,787.03	\$ 298,859.86
TOTAL NONMAJOR GOVT. FUNDS	\$ 1,354,701.99	\$ 2,280,910.58	\$ 5,016,199.65	\$ 3,889,097.89	\$ 4,779,383.96	\$ 5,260,023.56	\$ 2,501,502.59
TOTAL GOVERNMENTAL FUNDS	\$ 9,361,360.56	\$ 39,003,966.88	\$ 8,812,975.96	\$ 10,278,195.78	\$ 9,849,474.95	\$ 26,213,368.86	\$ 31,393,655.37

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CITY OF DEVILS LAKE
Devlis Lake, North Dakota
SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)
For the Year Ended December 31, 2011

	Balance 1-1-11	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-11
CONTINUED.....							
INTERNAL SERVICE FUND:							
SELF INSURANCE	\$ 335,690.38	\$ 813,156.27	\$ -	\$ -	\$ -	\$ 775,984.58	\$ 372,862.07
ENTERPRISE FUNDS:							
MAJOR ENTERPRISE FUNDS:							
WATER	\$ 498,026.02	\$ 707,272.46	\$ 30,197.00	\$ -	\$ 234,134.60	\$ 459,960.22	\$ 541,400.66
WATER SOURCE REPLACEMENT	2,018,566.28	281,532.65	-	-	380,000.00	254,600.00	1,665,498.93
SEWER	515,622.01	846,781.34	-	-	315,090.43	476,615.42	570,697.50
SANITATION	479,238.26	1,393,257.60	201,490.00	-	303,187.63	1,276,525.56	494,272.67
TOTAL MAJOR BUSINESS-TYPE FUNDS	\$ 3,511,452.57	\$ 3,228,844.05	\$ 231,687.00	\$ -	\$ 1,232,412.66	\$ 2,467,701.20	\$ 3,271,869.76
NONMAJOR ENTERPRISE FUNDS:							
LANDFILL CLOSURE	\$ 167,872.92	\$ 50,121.53	\$ -	\$ -	\$ -	\$ 69,300.00	\$ 148,694.45
LANDFILL CLOSURE RESERVE	20,000.00	-	-	-	-	-	20,000.00
TOTAL NONMAJOR BUSINESS-TYPE FUNDS	\$ 187,872.92	\$ 50,121.53	\$ -	\$ -	\$ -	\$ 69,300.00	\$ 168,694.45
TOTAL ENTERPRISE FUNDS	\$ 3,699,325.49	\$ 3,278,965.58	\$ 231,687.00	\$ -	\$ 1,232,412.66	\$ 2,537,001.20	\$ 3,440,564.21
TOTAL PRIMARY GOVERNMENT	\$ 13,396,376.43	\$ 43,096,088.73	\$ 9,044,662.96	\$ 10,278,195.78	\$ 11,081,887.61	\$ 29,526,354.64	\$ 35,207,081.65
COMPONENT UNIT							
DEVILS LAKE AIRPORT AUTHORITY	\$ 232,744.02	\$ 1,415,439.82	\$ -	\$ -	\$ -	\$ 1,414,483.59	\$ 233,700.25
TOTAL COMPONENT UNIT	\$ 232,744.02	\$ 1,415,439.82	\$ -	\$ -	\$ -	\$ 1,414,483.59	\$ 233,700.25
TOTAL REPORTING ENTITY	\$ 13,629,120.45	\$ 44,511,528.55	\$ 9,044,662.96	\$ 10,278,195.78	\$ 11,081,887.61	\$ 30,940,838.23	\$ 35,440,781.90

CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY DIRECT PROGRAMS:</u>		
Capitalization Grants for Clean Water State Revolving Funds - ARRA (Recovery)	66.458	* \$ 2,500,000
<u>U.S. DEPARTMENT OF DEFENSE DIRECT PROGRAMS:</u>		
North Dakota Environmental Infrastructure (Section 594) - ARRA (Recovery)	12.118	* \$ 911,170
<u>FEDERAL HIGHWAY ADMINISTRATION - PASS-THROUGH PROGRAMS:</u>		
<u>Passed through the State Parks and Recreation:</u>		
Recreational Trails Program	20.219	\$ 109,386
<u>U.S. DEPARTMENT OF TRANSPORTATION - PASS-THROUGH PROGRAMS:</u>		
<u>Passed through State Department of Transportation</u>		
State and Community Highway Safety	20.600	\$ 2,881
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	3,115
Total State Department of Transportation		\$ 5,996
<u>Passed through Federal Aviation Administration:</u>		
Airport Improvement Program - **	20.106	* \$ 1,058,835
Total U.S. Department of Transportation Pass-Through Programs		\$ 1,174,217
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT - PASS-THROUGH PROGRAMS:</u>		
<u>Passed through the State Division of Community Services:</u>		
Community Development Block Grants	14.228	\$ 3,007
<u>U.S. DEPARTMENT OF COMMERCE - PASS-THROUGH PROGRAMS:</u>		
<u>Passed through the State Department of Emergency Services:</u>		
Public Safety Interoperable Communication Grant Program	11.555	\$ 2,520
<u>U.S. DEPARTMENT OF HOMELAND SECURITY PASS-THROUGH PROGRAMS:</u>		
<u>Passed through the State Department of Emergency Services:</u>		
Homeland Security Grant Program	97.067	\$ 21,189
<u>U.S. DEPARTMENT OF JUSTICE PASS-THROUGH PROGRAMS:</u>		
<u>Passed through the State Attorney's General Office:</u>		
Edward Bryne Memorial Justice Assistance Program	16.738	\$ 3,970
Total Expenditures of Federal Awards		<u>\$ 4,616,073</u>

* - Major program

** - Note: The airport is a discretely presented component unit of the City of Devils Lake.

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, 2011. 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

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MANAGER – DAVID MIX
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR

STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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*

City Commission
City of Devils Lake
Devils Lake, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, Devils Lake, North Dakota, as of and for the year ended December 31, 2011, which collectively comprise the City of Devils Lake's basic financial statements and have issued our report thereon dated December 7, 2012. 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.

Internal Control Over Financial Reporting

Management of City of Devils Lake is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Devils Lake's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Devils Lake's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified one deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 questioned costs* to be a material weakness [2011-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Devils Lake'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 Devils Lake's response to the finding identified in the audit is described in the accompanying *schedule of findings and questioned costs*. We did not audit City of Devils Lake's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the city commission, others within the city, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

December 7, 2012

STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

City Commission
City of Devils Lake
Devils Lake, North Dakota

Compliance

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 each of City of Devils Lake's major federal programs for the year ended December 31, 2011. City of Devils Lake's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Devils Lake's management. Our responsibility is to express an opinion on City of Devils Lake's compliance based on our audit.

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. Our audit does not provide a legal determination of City of Devils Lake's compliance with those requirements.

In our opinion, City of Devils Lake complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City of Devils Lake is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Devils Lake's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the city commission, others within the city, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Bob Peterson".

Robert R. Peterson
State Auditor

December 7, 2012

CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

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

Internal control over financial reporting:

Material weaknesses Identified? X Yes No

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal Control over major programs:

Material Weakness Identified? Yes X No

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program Or Cluster
20.106	Airport Improvement Program
12.118	North Dakota Environment Infrastructure (Section 594) – ARRA
66.458	Capitalization Grants for Clean Water State Revolving Funds -- ARRA

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

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2011-01 – CONSTRUCTION IN PROGRESS

Condition:

Construction in progress relating to the City of Devils Lake embankment raise was not accurately stated prior to the December 31, 2011 Audit period. The recorded construction in progress was understated by \$24,695,683 (unrecorded portion of the embankment project).

Effect:

The error in recording construction in progress was material to the December 31, 2010 financial statements. For the current year the financial statements required a prior period adjustment to correct the errors from previous periods relating to construction in progress.

Cause:

The embankment raise project for Devils Lake City was a cost share of seventy five percent federal and twenty five percent local. The local share was recorded in previous audit periods but the federal share was unrecorded. The City was not aware that the federal percentage was to be included in total construction in progress.

Criteria:

Proper tracking of construction in progress whether it be from local sources or federal sources is necessary for construction in progress to be complete, accurate, fairly stated in accordance with GAAP.

Recommendation:

We recommend that the City of Devils Lake keep a complete and accurate listing of the construction in progress for the embankment project on a yearly basis which would include the federal and local allocations of the project.

Views of Responsible Officials / Planned Corrective Actions:

I agree with the recommendation. The City of Devils Lake will add the embankment CIP federal share to its spreadsheet for tracking capital assets. This spreadsheet is reviewed at the end of each fiscal year and updated for changes in the capital assets. The City will continue to track this CIP using information from the Corps of Engineers until the project is completed and fully capitalized.

Section III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.