

CITY OF LINCOLN

AUDIT REPORT

December 31, 2015

**CITY OF LINCOLN
LINCOLN, NORTH DAKOTA**

TABLE OF CONTENTS
For The Year Ended December 31, 2015

	<u>PAGE(S)</u>
List of Officials	1
Independent Auditor's Report	2-4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position – Modified Cash Basis	5
Statement of Activities – Modified Cash Basis	6
Balance Sheet – Modified Cash Basis – Governmental Funds	7
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position – Modified Cash Basis – Governmental Funds	8
Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis – Governmental Funds	10
Statement of Net Position – Modified Cash Basis – Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds	12
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds	13
Notes to the Financial Statements	14-29
SUPPLEMENTARY INFORMATION	
Schedule of Employer's Share of Net Pension Liability – ND Public Employees Retirement System	30
Schedule of Employer Contributions – ND Public Employees Retirement System	30
Budgetary Comparison Schedule – Modified Cash Basis	
General Fund	31
Highway Tax Distribution Fund	32
Notes to Supplementary Information	33
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	34-35
Schedule of Findings	36-38

CITY OF LINCOLN
LIST OF OFFICIALS
December 31, 2015

Mayor	Gerarld Wise
Council Member	Karen Daly
Council Member	Toni Zainhofsky
Council Member	Tom Volk
Council Member	Ervin Fisher
City Auditor	Paula Hunt

INDEPENDENT AUDITOR'S REPORT

City Council
City of Lincoln
Lincoln, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Basis for Qualified Opinion

Due to the timing of the audit and changes in staff at the city, we were unable to obtain sufficient appropriate audit evidence to determine that all disbursements were appropriately classified to the appropriate funds. Also, we were unable to obtain sufficient appropriate audit evidence regarding payroll calculations and supporting documentation for hours paid on selected payrolls and classification of payroll expenses to the appropriate funds.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Lincoln, as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln’s basic financial statements. The City’s share of net pension liability and employer contributions on page 30 and the budgetary comparison information on pages 31 through 32, which are the responsibility of management, are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matters

Adoption of New Accounting Standard

As described in Notes 1 and 9 to the financial statements, the City of Lincoln adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. As described in Notes 1 and 9 to the financial statements, the City of Lincoln has restated the previously reported net position to account for pension liabilities and expenses in accordance with this Statement. Our opinion is not modified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2019, on our consideration of the City of Lincoln, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lincoln's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
August 7, 2019

CITY OF LINCOLN
Statement of Net Position - Modified Cash Basis
December 31, 2015

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 2,338,302	\$ 1,748,571	\$ 4,086,873
Capital Assets			
Land	12,000	35,766	47,766
Land Improvements	13,693	7,388	21,081
Buildings	594,795	354,435	949,230
Furniture & Fixtures	29,339	-	29,339
Equipment & Vehicles	577,693	1,408,623	1,986,316
Infrastructure	2,170,071	217,090	2,387,161
Less: Accumulated Depreciation	<u>(959,342)</u>	<u>(1,645,693)</u>	<u>(2,605,035)</u>
Total Capital Assets	<u>2,438,249</u>	<u>377,609</u>	<u>2,815,858</u>
TOTAL ASSETS	4,776,551	2,126,180	6,902,731
DEFERRED OUTFLOWS OF RESOURCES			
Derived from Pensions	39,785	-	39,785
LIABILITIES			
Long-Term Liabilities:			
Portion Due or Payable within One Year			
Special Assessment Bonds Payable	109,000	-	109,000
Portion Due or Payable after One Year			
Special Assessment Bonds Payable	374,000	-	374,000
Compensated Absences Payable	5,775	4,583	10,358
Net Pension Liability	<u>268,557</u>	<u>-</u>	<u>268,557</u>
Total Liabilities	<u>757,332</u>	<u>4,583</u>	<u>761,915</u>
DEFERRED INFLOWS OF RESOURCES			
Derived from Pensions	52,423	-	52,423
NET POSITION			
Net Investment in Capital Assets	1,955,249	377,609	2,332,858
Restricted for:			
Debt Service	191,698	-	191,698
Special Purposes	657,431	-	657,431
Unrestricted	<u>1,202,203</u>	<u>1,743,988</u>	<u>2,946,191</u>
Total Net Position	<u>\$ 4,006,581</u>	<u>\$ 2,121,597</u>	<u>\$ 6,128,178</u>

CITY OF LINCOLN
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2015

Functions/Programs	Net (Expense) Revenue & Changes in Net Position					
	Program Revenues			Primary Government		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Primary Government</u>						
<u>Governmental Activities</u>						
General Government	\$ 500,821	\$ 80,578	\$ -	\$ (420,243)	\$ (420,243)	
Public Safety	381,879	37,776	-	(344,103)	(344,103)	
Public Works and Streets	91,401	28,056	166,166	102,821	102,821	
Culture and Recreation	25,598	-	-	(25,598)	(25,598)	
Other	51,617	-	-	(51,617)	(51,617)	
Interest on Long-Term Debt	10,527	-	-	(10,527)	(10,527)	
Total Governmental Activities	1,061,843	146,410	166,166	(749,267)	(749,267)	
<u>Business-type Activities</u>						
Water	616,260	709,993	-	\$ 93,733	93,733	
Sewer	138,405	200,097	-	-	61,692	
Garbage	206,770	222,208	-	-	15,438	
Total Business-type Activities	961,435	1,132,298	-	-	170,863	
Total Primary Government	\$ 2,023,278	\$ 1,278,708	\$ 166,166	\$ (749,267)	\$ 170,863	\$ (578,404)
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purpose						
Property Taxes, Levied for Special Reserve						
Property Taxes, Levied for Capital Projects						
Special Assessments						
Grants and Contributions Not Restricted						
Interest Income						
Miscellaneous Revenue						
Transfers						
Total General Revenues						
				1,072,895	54,806	1,127,701
Change in Net Position				323,628	225,669	549,297
Net Position - Beginning of Year				3,968,187	1,895,928	5,864,115
Prior Period Adjustment (See Note 9)				(285,234)	-	(285,234)
Net Position - Beginning of Year, as Restated				3,682,953	1,895,928	5,578,881
Net Position - End of Year				\$ 4,006,581	\$ 2,121,597	\$ 6,128,178

CITY OF LINCOLN
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2015

	Major Funds				Total Governmental Funds
	General Fund	Highway Tax Distribution	Water Improvement District 2004-1	Other Governmental Funds	
ASSETS					
Cash and Cash Equivalents	\$ 265,082	\$ 1,219,705	\$ 72,642	\$ 780,873	\$ 2,338,302
Due From Other Funds	4,386	-	-	-	4,386
TOTAL ASSETS	<u>\$ 269,468</u>	<u>\$ 1,219,705</u>	<u>\$ 72,642</u>	<u>\$ 780,873</u>	<u>\$ 2,342,688</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due To Other Funds	\$ -	\$ -	\$ 4,386	\$ -	\$ 4,386
Fund Balances:					
Restricted for:					
Highway	-	1,219,705	-	-	1,219,705
Debt Service	-	-	68,256	123,442	191,698
Assigned	-	-	-	657,431	657,431
Unassigned	269,468	-	-	-	269,468
Total Fund Balances	<u>269,468</u>	<u>1,219,705</u>	<u>68,256</u>	<u>780,873</u>	<u>2,338,302</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 269,468</u>	<u>\$ 1,219,705</u>	<u>\$ 72,642</u>	<u>\$ 780,873</u>	<u>\$ 2,342,688</u>

CITY OF LINCOLN
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position - Modified Cash Basis - Governmental Funds
 December 31, 2015

Total Fund Balances for Governmental Funds \$ 2,338,302

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 3,397,591	
Less Accumulated Depreciation	<u>(959,342)</u>	
Net Capital Assets		2,438,249

Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet. 39,785

The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet. (268,557)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (52,423)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.
 Balances at December 31, 2015 are:

Special Assessment Bonds Payable	(483,000)	
Compensated Absences	<u>(5,775)</u>	
Total Long-Term Liabilities		<u>(488,775)</u>

Total Net Position of Governmental Activities \$ 4,006,581

CITY OF LINCOLN
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2015

	Major Funds				
	General Fund	Highway Tax Distribution	Water Improvement District 2004-1	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 337,762	\$ -	\$ -	\$ 152,981	\$ 490,743
Special Assessments	-	-	31,270	121,062	152,332
Licenses, Permits, and Fees	80,578	-	-	-	80,578
Intergovernmental	316,753	166,166	-	-	482,919
Charges for Services	-	-	-	28,056	28,056
Fines, Forfeitures, and Penalties	37,711	-	-	65	37,776
Interest	5,464	-	63	403	5,930
Miscellaneous	33,226	16,471	-	52,940	102,637
TOTAL REVENUES	811,494	182,637	31,333	355,507	1,380,971
EXPENDITURES					
Current:					
General Government	418,213	-	-	72,125	490,338
Public Safety	378,151	-	-	-	378,151
Public Works	-	126,702	-	17,989	144,691
Culture and Recreation	-	-	-	25,598	25,598
Other	-	-	850	50,767	51,617
Debt Service:					
Principal	-	-	14,000	95,000	109,000
Interest	-	-	4,425	6,102	10,527
TOTAL EXPENDITURES	796,364	126,702	19,275	267,581	1,209,922
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,130	55,935	12,058	87,926	171,049
OTHER FINANCING SOURCES (USES)					
Transfers In	-	214,176	8,948	12,477	235,601
Transfers (Out)	(231,101)	-	-	-	(231,101)
Total Other Financing Sources and (Uses)	(231,101)	214,176	8,948	12,477	4,500
NET CHANGE IN FUND BALANCES	(215,971)	270,111	21,006	100,403	175,549
Fund Balances - January 1, 2015	485,439	949,594	47,250	680,470	2,162,753
FUND BALANCES - DECEMBER 31, 2015	\$ 269,468	\$ 1,219,705	\$ 68,256	\$ 780,873	\$ 2,338,302

CITY OF LINCOLN

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis - Governmental Funds
For the year ended December 31, 2015

Net change in fund balances - total governmental funds \$ 175,549

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital assets purchased in the current period	\$ 159,099	
Depreciation expense of capital assets reported	<u>(125,770)</u>	33,329

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

Accrued compensated absences		1,711
------------------------------	--	-------

The proceeds of debt issuances are reported as financing resources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt issued and repayment of debt made during the year.

Repayment of Debt		109,000
-------------------	--	---------

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions.

	<u>4,039</u>
--	--------------

Change in net position of governmental activities	\$ <u>323,628</u>
---	-------------------

CITY OF LINCOLN
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2015

	Major Enterprise Funds			Totals
	Water	Sewer	Garbage	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 845,089	\$ 824,277	\$ 79,205	\$ 1,748,571
Total Current Assets	<u>845,089</u>	<u>824,277</u>	<u>79,205</u>	<u>1,748,571</u>
Noncurrent Assets:				
Capital Assets:				
Land	10,766	25,000	-	35,766
Land Improvements	-	-	7,388	7,388
Buildings	354,435	-	-	354,435
Equipment & Vehicles	1,366,329	29,184	13,110	1,408,623
Infrastructure	-	217,090	-	217,090
Less: Accumulated Depreciation	<u>(1,561,389)</u>	<u>(76,944)</u>	<u>(7,360)</u>	<u>(1,645,693)</u>
Net Capital Assets	<u>170,141</u>	<u>194,330</u>	<u>13,138</u>	<u>377,609</u>
TOTAL ASSETS	<u>1,015,230</u>	<u>1,018,607</u>	<u>92,343</u>	<u>2,126,180</u>
LIABILITIES				
Current Liabilities:				
Compensated Absences	<u>4,020</u>	<u>338</u>	<u>225</u>	<u>4,583</u>
Total Current Liabilities	<u>4,020</u>	<u>338</u>	<u>225</u>	<u>4,583</u>
NET POSITION				
Net Investment in Capital Assets	170,141	194,330	13,138	377,609
Unrestricted	<u>841,069</u>	<u>823,939</u>	<u>78,980</u>	<u>1,743,988</u>
Total Net Position	<u>\$ 1,011,210</u>	<u>\$ 1,018,269</u>	<u>\$ 92,118</u>	<u>\$ 2,121,597</u>

CITY OF LINCOLN
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2015

	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
OPERATING REVENUES:				
Charges for Services	\$ 709,993	\$ 200,097	\$ 222,208	\$ 1,132,298
OPERATING EXPENSES:				
Salaries	73,540	36,113	26,529	136,182
Health Insurance	7,563	3,781	2,801	14,145
Insurance & Retirement	3,664	1,817	1,354	6,835
Utilities	7,738	2,801	-	10,539
Supplies	24,192	8,584	4,231	37,007
Maintenance	61,008	72,437	52	133,497
Garbage Contract	-	-	168,908	168,908
Water Contract	406,422	-	-	406,422
Miscellaneous	2,722	2,222	1,893	6,837
Depreciation Expense	29,341	10,650	1,002	40,993
TOTAL OPERATING EXPENSES	616,190	138,405	206,770	961,365
INCOME (LOSS) FROM OPERATIONS	93,803	61,692	15,438	170,933
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	28	-	-	28
Miscellaneous Revenue	35,878	23,200	200	59,278
Professional Fees	(70)	-	-	(70)
TOTAL NON-OPERATING REVENUES (EXPENSES)	35,836	23,200	200	59,236
NET INCOME (LOSS) BEFORE TRANSFERS	129,639	84,892	15,638	230,169
Transfers In (Out)	(4,500)	-	-	(4,500)
CHANGE IN NET POSITION	125,139	84,892	15,638	225,669
Net Position - January 1, 2015	886,071	933,377	76,480	1,895,928
NET POSITION - DECEMBER 31, 2015	\$ 1,011,210	\$ 1,018,269	\$ 92,118	\$ 2,121,597

CITY OF LINCON
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2015

	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 709,993	\$ 200,097	\$ 222,208	\$ 1,132,298
Payments to Suppliers	(502,082)	(86,044)	(175,084)	(763,210)
Payments to Employees	(83,997)	(41,711)	(30,684)	(156,392)
Net Cash Provided (Used) by Operating Activities	<u>123,914</u>	<u>72,342</u>	<u>16,440</u>	<u>212,696</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Miscellaneous Revenue	35,878	23,200	200	59,278
Transfers In (Out)	(4,500)	-	-	(4,500)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>31,378</u>	<u>23,200</u>	<u>200</u>	<u>54,778</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Engineering, Construction and Professional Fees	(70)	-	-	(70)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(70)</u>	<u>-</u>	<u>-</u>	<u>(70)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest Income	28	-	-	28
Net Cash Provided by Investing Activities	<u>28</u>	<u>-</u>	<u>-</u>	<u>28</u>
Net Increase (Decrease) in Cash and Cash Equivalents	155,250	95,542	16,640	267,432
Cash and Cash Equivalents, January 1	<u>689,839</u>	<u>728,735</u>	<u>62,565</u>	<u>1,481,139</u>
Cash and Cash Equivalents, December 31	<u>\$ 845,089</u>	<u>\$ 824,277</u>	<u>\$ 79,205</u>	<u>\$ 1,748,571</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 93,803	\$ 61,692	\$ 15,438	\$ 170,933
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>				
Depreciation Expense	29,341	10,650	1,002	40,993
Change in assets and liabilities:				
Compensated Absences	770	-	-	770
Net Cash Provided (Used) by Operating Activities	<u>\$ 123,914</u>	<u>\$ 72,342</u>	<u>\$ 16,440</u>	<u>\$ 212,696</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Lincoln, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City implemented the new reporting model, GASB Statement No. 34, beginning January 1, 2004. The more significant of the government's accounting policies are described below.

A. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the City's financial statements include all accounts of the City's operations. The criteria for including organizations as component units within the City's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, there are no component units of the City of Lincoln.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental and proprietary activities. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds in a single column.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City reports the following major governmental funds:

General Fund: This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Highway Tax Distribution: This fund accounts for resources used for street repair and maintenance.

Water Improvement District 2004-1: This fund accounts for the collection of revenues and payment of debt for the Water Improvement District 2004-1 construction project.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The City has the following major proprietary funds:

Water Fund: This fund accounts for the activity of the Water Department. The department operates the water distribution system for the City of Lincoln.

Sewer Fund: This fund accounts for the activity of the Sewer Department. This department operates the waste water collection system in the City of Lincoln.

Garbage Fund: This fund accounts for the activities of the garbage collection system within the City of Lincoln.

C. Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, and proprietary fund statements. This is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

The City follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities.

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.

D. Deposits

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured and 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. During the year, the board did not review the pledge of securities semi-annually as required by state law.

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 any other state of the United States or such other securities approved by the banking board.

The bank balance of these deposits at December 31, 2015 was \$4,113,193; the carrying balances at this date were \$4,086,873. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$3,863,193 was collateralized with securities held by the pledging financial institutions' agent but not in the City's name.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

Concentration of credit risk: The City does not have a limit on the amount the City may invest in any one issuer.

E. Capital Assets

Capital assets include land, land improvements, buildings, equipment and vehicles, and infrastructure. Assets are reported in the governmental activities and business-type activities columns in the government-wide financial statements and on the statement of net position proprietary fund statement. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost 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:

Land Improvements	25 years
Buildings	50 years
Infrastructure	20-50 years
Equipment & Vehicles	7-25 years

F. Compensated Absences

Each continuous full-time employee is granted vacation benefits from 40 hours to 176 hours per year based on years of service. An employee must complete the first twelve months of continuous service prior to taking vacation. The maximum number of vacation hours that can be carried over at year-end is the total sum of hours earned that year to be used the following year. If an employee, through no fault of his/her own, cannot take vacation prior to December 31st, the department head and regulating Commissioner may approve a carry-over in excess of the maximum allowable carry-over pursuant to a written request. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month (96 hours per year) and up to 120 days (960 hours) of sick leave is the maximum accumulation. Upon termination, employees are not paid for any sick leave accumulated, but are paid for all vacation earned up to the date of separation. Vested or accumulated leave for governmental funds is reported in the statement of net position. Vested or accumulated leave for proprietary fund operations are accounted for in those funds.

G. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. The City does not record encumbrances.

I. Interfund Transactions

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

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

J. Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city council removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the City’s “intent” to be used for special purposes, but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the City’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 8 for additional information.

L. Pensions

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

M. New GAAP Implementation

Beginning in fiscal year 2015, the City implemented GASB Statement No. 68– *Accounting and Financial Reporting for Pensions*, which provides information about financial support for pensions. This statement requires net pension liability to be reported on the face of the financial statements. A prior period adjustment of (\$285,234) was made to unrestricted net position to account for these items. Notes 9 and 10 contain additional information on this adjustment.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposit and savings accounts.

NOTE 3 PROPERTY TAXES

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

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

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

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2015:

Governmental Activities:	Balance January 1	Increases	Decreases	Balance December 31
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Total Capital Assets Not Being Depreciated	12,000	-	-	12,000
<i>Capital assets, being depreciated:</i>				
Land Improvements	13,693	-	-	13,693
Buildings	594,795	-	-	594,795
Furniture & Fixtures	29,339	-	-	29,339
Equipment & Vehicles	563,559	14,134	-	577,693
Infrastructure	2,025,106	144,965	-	2,170,071
Total Capital Assets, Being Depreciated	3,226,492	159,099	-	3,385,591
<i>Less accumulated depreciation for:</i>				
Land Improvements	3,345	1,007	-	4,352
Buildings	110,272	11,896	-	122,168
Furniture & Fixtures	18,228	3,493	-	21,721
Infrastructure	388,422	45,725	-	434,147
Equipment & Vehicles	313,305	63,649	-	376,954
Total Accumulated Depreciation	833,572	125,770	-	959,342
<i>Total Capital Assets Being Depreciated, Net</i>	2,392,920	33,329	-	2,426,249
Governmental Activities Capital Assets, Net	<u>\$ 2,404,920</u>	<u>\$ 33,329</u>	<u>\$ -</u>	<u>\$ 2,438,249</u>

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

Governmental Activities:	2015
General Government	\$ 16,233
Public Works and Streets	91,675
Public Safety	17,862
Total Depreciation Expense	<u>\$ 125,770</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 4 CAPITAL ASSETS – CONTINUED

Business-type Activities:	Balance January 1	Increases	Decreases	Balance December 31
<i>Capital assets not being depreciated:</i>				
Land	\$ 35,766	\$ -	\$ -	\$ 35,766
Total Capital Assets Not Being Depreciated	35,766	-	-	35,766
<i>Capital assets, being depreciated:</i>				
Land Improvements	7,388	-	-	7,388
Buildings	354,435	-	-	354,435
Equipment & Vehicles	1,408,623	-	-	1,408,623
Infrastructure	217,090	-	-	217,090
Total Capital Assets, Being Depreciated	1,987,536	-	-	1,987,536
<i>Less accumulated depreciation for:</i>				
Land Improvements	3,007	296	-	3,303
Buildings	235,576	7,089	-	242,665
Infrastructure	44,641	9,488	-	54,129
Equipment & Vehicles	1,321,476	24,120	-	1,345,596
Total Accumulated Depreciation	1,604,700	40,993	-	1,645,693
Total Capital Assets Being Depreciated, Net	382,836	(40,993)	-	341,843
Business-type Activities Capital Assets, Net	\$ 418,602	\$ (40,993)	\$ -	\$ 377,609

NOTE 5 LEASES

Operating Leases

The City leases a copier under a noncancelable operating lease. Total costs for this lease were \$3,552 for the year ended December 31, 2015. The lease was renewed in July 2013 and the estimated future lease payments for the years ended December 31, 2016, and 2017 are \$3,552. The estimated future lease payments for the year ended December 31, 2018 is \$1,776.

NOTE 6 LONG-TERM LIABILITIES

During the year ended December 31, 2015, the following changes occurred in long-term liabilities of the City:

PRIMARY GOVERNMENT

Governmental Activities:	Balance January 1	Additions	Retirements	Balance December 31	Due Within One Year
Special Assessment Bonds	\$ 592,000	\$ -	\$ (109,000)	\$ 483,000	\$ 109,000
Compensated Absences*	7,486	-	(1,711)	5,775	-
Total Governmental Activities	\$ 599,486	\$ -	\$ (110,711)	\$ 488,775	\$ 109,000
Business-type Activities:	Balance January 1	Additions	Retirements	Balance December 31	Due Within One Year
Compensated Absences*	\$ 3,813	\$ 770	\$ -	\$ 4,583	\$ -

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 6 LONG-TERM LIABILITIES– CONTINUED

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

Governmental Activities:

Special Assessment Bonds:

\$365,000 Water Storage Reservoir Revenue Bonds, due in annual installments of \$12,000 to \$18,000 through September 2025; interest at 2.5%	\$ 163,000
\$445,000 Refunding Improvement Bonds of 2012, due in annual installments of \$80,000 to \$100,000 through May 2017; interest at 0.60% to 1.10%	165,000
\$200,000 General Obligation Bonds, Series 2008, due in annual installments of \$5,000 to \$15,000 through May 2028; interest at 4.25% to 5.00%	<u>155,000</u>
Total Governmental Activities Debt	<u>\$ 483,000</u>

The annual requirements to amortize the outstanding governmental activities debt are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 109,000	\$ 12,423	\$ 121,423
2017	105,000	10,740	115,740
2018	25,000	9,500	34,500
2019	26,000	8,700	34,700
2020	26,000	7,875	33,875
2021-2025	147,000	25,831	172,831
2026-2028	45,000	3,375	48,375
TOTAL	<u>\$ 483,000</u>	<u>\$ 78,444</u>	<u>\$ 561,444</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 7 RISK MANAGEMENT

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

In 1986 state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Lincoln pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile insurance.

The City of Lincoln also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lincoln 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 two million dollars per occurrence during a 12 month period. That State Bonding Fund currently provides the City of Lincoln with blanket fidelity bond coverage in the amount of \$250,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Lincoln has workers compensation with the North Dakota Workforce Safety. The City pays for a single health policy for all full time employees. The employee may have the difference for a family policy deducted from their paycheck if they choose to have a family policy.

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

NOTE 8 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of December 31, 2015 are as follows:

Deferred Outflows of Resources	
Derived from pensions - NDPERS	<u>\$ 39,785</u>
Deferred Inflows of Resources	
Derived from pensions - NDPERS	<u>\$ 52,423</u>

Note 10 of the financial statements contains detail of the pension plans.

NOTE 9 RESTATEMENT OF NET POSITION

The beginning net position has been restated to reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The effect on beginning net position is as follows:

Net Position - Beginning of Year, as previously reported	\$ 3,968,187
Restatement of accounting for pensions	(285,234)
Net Position - Beginning of Year, as restated	<u>\$ 3,682,953</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

Refunds of Member Account Balance

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

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

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Member and Employer Contributions

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

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

At December 31, 2015, the City reported a liability of \$268,557 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2014, the City's proportion was 0.042311%.

For the year ended December 31, 2015, the City recognized pension expense of \$26,572. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,707	\$ -
Net difference between projected and actual earnings on pension plan investments	-	52,423
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date (see below)	31,078	-
Total	\$ 39,785	\$ 52,423

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

\$31,078 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

<u>For the year ended December 31,</u>	
2016	\$ (11,253)
2017	(11,253)
2018	(11,253)
2019	(11,253)
2020	1,296
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 414,194	\$ 268,557	\$ 146,784

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 11 INTERFUND TRANSFERS

At December 31, 2015, fund transfers consisted of the following:

<u>Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>	
Governmental Funds:			
Major			
General		\$ 214,176	Transfer funds from General fund to Highway fund
General		11,000	Transfer funds from General to Development funds
General		4,448	Transfer from General to WID 2004
General		1,477	Transfer from General to SID 2007
Highway Tax Distribution	\$ 214,176		Transfer funds from Highway fund to General fund
Water Improvement 2004-1	4,448		Transfer from General to WID 2004
Non-Major			
Wheatland Hills	9,000		Transfer funds to Wheatland Hills fund from General fund
Dakota Breeze- Brendel	2,000		Transfer from General to Dakota Breeze- Brendel Fund
SID 2007	1,477		Transfer from General to SID 2007
Water Bond	4,500		Transfer from Water to make loan payment
Business-type Funds:			
Major			
Water		4,500	Transfer to Water Bond for loan payment
	<u>\$ 235,601</u>	<u>\$ 235,601</u>	

NOTE 12 INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2015, interfund receivables and payables totaled \$4,386 due to the Water Improvement District 2004-1 owing the General Fund for a loan given by the General Fund in 2013 to help pay off the Water Improvement District 2004-1 long-term debt early. This has not been repaid as of December 31, 2015.

NOTE 13 EXPENDITURES IN EXCESS OF BUDGET

For the year ended December 31, 2015, the general fund was expended in excess of budget. No remedial action is anticipated by the City regarding these excess expenditures because revenues exceeded budget projections.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2015

NOTE 14 FUND BALANCES

At December 31, 2015, a summary of the governmental fund balance classifications are as follows:

	General Fund	Highway Tax Distribution	Water Improvement District 2004-1	Other Governmental Funds	Total
Restricted					
Debt Service	\$ -	\$ -	\$ 68,256	\$ 123,442	\$ 191,698
Highway	-	1,219,705	-	-	1,219,705
Assigned					
Street Improvement	-	-	-	109,833	109,833
Building	-	-	-	68,430	68,430
Wheatland Hills	-	-	-	2,604	2,604
N. Lincoln 2nd Phase	-	-	-	3,198	3,198
East Lincoln 5th	-	-	-	317	317
Rents	-	-	-	51,569	51,569
Lincoln School	-	-	-	6,564	6,564
Dakota Breeze - Brendel	-	-	-	1,619	1,619
Lift Station	-	-	-	3,040	3,040
Silverleaf	-	-	-	419	419
Social Security	-	-	-	25,922	25,922
Planning	-	-	-	101,126	101,126
Employee Pensions	-	-	-	39,628	39,628
Insurance	-	-	-	60,297	60,297
Forestry	-	-	-	23,671	23,671
Police Vehicle Replacement	-	-	-	43,559	43,559
Street Lights	-	-	-	20,635	20,635
Emergency	-	-	-	90,000	90,000
Basaraba Excavating	-	-	-	5,000	5,000
Unassigned	269,468	-	-	-	269,468
	<u>\$ 269,468</u>	<u>\$ 1,219,705</u>	<u>\$ 68,256</u>	<u>\$ 780,873</u>	<u>\$ 2,338,302</u>

NOTE 15 SUBSEQUENT EVENTS

The city was involved in two lawsuits, from the years 2016-2019. Great Western LLC and Lincoln Land Development both filed suits over easement rights for a road. Great Western LLC went to trial in late 2017 and was settled in July 2018 with the city paying \$160,000 to Great Western LLC. Lincoln Land Development went to trial in August 2017 and the city appealed and lost, paying \$183,279 in April 2019 to Lincoln Land Development. NDIRF covered legal fees as they represented the city with both suits, but additional legal support was needed resulting in additional fees of approximately \$41,100.

Over the subsequent years the city has made various repairs and city-wide maintenance. Some of the larger purchases include: In 2016, a 2016 Ford Explorer police vehicle for \$26,945, a 2005 Volvo Hook truck and accessories for \$85,520. In 2017 a Volvo Skidsteer and accessories for \$59,988, a 2012 Chevy Silverado for \$19,027 and a Sewer Jetter for \$107,334. In 2018 the city purchased a 2011 Ford F350 for \$17,500, a 2018 Chevy Tahoe for \$33,644, and a 2005 Elgin Pelican Sweeper for \$50,500. In 2019 the city purchased a 2010 John Deere 6115D for \$39,067 and upgraded the sensor at the water plant for \$13,498.

SUPPLEMENTARY INFORMATION

City of Lincoln
 Supplementary Information
 For the Year Ended December 31, 2015

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

	2015
Employer's proportion of the net pension liability (asset)	0.042311%
Employer's proportionate share of the net pension liability	\$ 268,557
Employer's covered-employee payroll	\$ 356,425
Employer's proportionate share of the net pension liability	75.34%
Plan fiduciary net position as a percentage of the total pension	77.70%

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

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

	2015
Statutorily required contribution	\$ 25,377
Contributions in relation to the statutorily required	\$ (25,377)
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll	\$ 356,425
Contributions as a percentage of covered-employee payroll	7.12%

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

CITY OF LINCOLN
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	
REVENUES				
Taxes	\$ 315,151	\$ 315,151	\$ 337,762	\$ 22,611
Licenses, Permits, and Fees	38,700	38,700	80,578	41,878
Intergovernmental	240,500	240,500	316,753	76,253
Fines, Forfeitures, and Penalties	15,100	15,100	37,711	22,611
Interest	2,500	2,500	5,464	2,964
Miscellaneous	600	600	33,226	32,626
TOTAL REVENUES	<u>612,551</u>	<u>612,551</u>	<u>811,494</u>	<u>198,943</u>
EXPENDITURES				
Current:				
General Government	278,520	278,520	418,213	(139,693)
Public Safety	403,502	403,502	378,151	25,351
TOTAL EXPENDITURES	<u>682,022</u>	<u>682,022</u>	<u>796,364</u>	<u>(114,342)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(69,471)	(69,471)	15,130	84,601
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	-	-	(231,101)	(231,101)
Total Other Financing Sources (Uses)	-	-	(231,101)	(231,101)
NET CHANGE IN FUND BALANCES	(69,471)	(69,471)	(215,971)	(146,500)
Fund Balances - January 1, 2015	<u>485,439</u>	<u>485,439</u>	<u>485,439</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 415,968</u>	<u>\$ 415,968</u>	<u>\$ 269,468</u>	<u>\$ (146,500)</u>

CITY OF LINCOLN
 Budgetary Comparison Schedule - Modified Cash Basis
 Highway Tax Distribution Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Actual (Budgetary Basis)	
REVENUES				
Intergovernmental	\$ 170,000	\$ 170,000	\$ 166,166	\$ (3,834)
Miscellaneous	<u>-</u>	<u>-</u>	<u>16,471</u>	<u>16,471</u>
TOTAL REVENUES	<u>170,000</u>	<u>170,000</u>	<u>182,637</u>	<u>12,637</u>
EXPENDITURES				
Current:				
Public Works and Streets	<u>213,302</u>	<u>211,949</u>	<u>126,702</u>	<u>85,247</u>
TOTAL EXPENDITURES	<u>213,302</u>	<u>211,949</u>	<u>126,702</u>	<u>85,247</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(43,302)	(41,949)	55,935	97,884
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>214,176</u>	<u>214,176</u>
NET CHANGE IN FUND BALANCES	(43,302)	(41,949)	270,111	312,060
Fund Balances - January 1, 2015	<u>949,594</u>	<u>949,594</u>	<u>949,594</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 906,292</u>	<u>\$ 907,645</u>	<u>\$ 1,219,705</u>	<u>\$ 312,060</u>

CITY OF LINCOLN
Notes to Supplementary Information
December 31, 2015

NOTE 1 BUDGETS

The City adopts a budget on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America for the general fund and each major special revenue fund. The City is required to present the adopted and final amended budgeted receipts and disbursements for 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 breakdown of the estimated revenues and appropriations.
- The City 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 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the City may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the governing board and the approval must be noted in the official proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

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*

Governing Board
City of Lincoln
Lincoln, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Dakota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements and have issued our report thereon dated August 7, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-001 through 2015-004 described in the accompanying schedule of findings and responses to be material weaknesses.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item 2015-005.

City of Lincoln, North Dakota’s Response to Findings

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

Purpose of this Report

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

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
August 7, 2019

CITY OF LINCOLN
Schedule of Findings
For the Year Ended December 31, 2015

I. FINDINGS RELATED TO FINANCIAL STATEMENTS

Material Weaknesses

Finding 2015-001: Segregation of Duties

Condition – The City auditor is responsible for the majority of accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the City’s ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in entities of your size, but the Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Council's knowledge of matters relating to the City's operations.

Management Response – The City is aware of the condition and will add controls where feasible.

Finding 2015-002: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the City’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – The City has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the City’s auditors is not unusual in an entity of this size. The Council should continue to review the financial statements and related disclosures.

Management Response – The City Council is aware that someone needs to review the audit report each year to make sure the financial statements appear to be correct.

CITY OF LINCOLN
Schedule of Findings
For the Year Ended December 31, 2015

Finding 2015-003: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements.

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cause – The classification of transactions are not properly monitored and capital asset activity is not being properly recorded.

Effect – The number of journal entries made has a material effect on the financial statements.

Recommendation – Management should make sure that all financial transactions are recorded throughout the year. All general ledger accounts should be reviewed monthly for adequacy and accuracy.

Management Response – The City is aware that several journal entries were required during the audit. The City will continue to work to maintain better asset records. The City will work with the auditors to develop a schedule of assets and will have the auditors assist in calculating depreciation. A new City Auditor was hired in December of 2016.

Finding 2015-004: Overpayment of Payroll and Benefits

Condition – Employees were overpaid and proper withholdings were not deducted.

Criteria – Proper knowledge and training will assist the city auditor with the ability to accurately complete payroll.

Cause – Misstatement of employee hours worked and improper withholding deductions due to the city auditor not having the proper knowledge or training. It was also noted that supporting documents for payroll were unable to be provided.

Effect – The City overpaid employees on wages and retirement and did not withhold the proper deductions.

Recommendation – The Council should ensure that the city auditor has the proper knowledge and training to perform payroll procedures. The Council should also have another individual review the completed payroll before it is released to employees.

Management Response – The City Council is aware of the condition and will monitor going forward. A new City Auditor was hired in December of 2016.

CITY OF LINCOLN
Schedule of Findings
For the Year Ended December 31, 2015

II. FINDINGS RELATED TO COMPLIANCE

Finding 2015-005: Pledged Securities

Condition – The City Council reviewed their pledges of securities only once during the year.

Criteria – North Dakota Century Code states pledges of securities should be reviewed by the City Council semi-annually.

Cause – Pledges of securities were not reviewed by the City Council semi-annually.

Effect – The City Council was not aware of the requirement and therefore, pledges of securities were not reviewed by the City Council semi-annually.

Recommendation – We recommend that the City Auditor and City Council review their pledged securities in comparison to their cash balances twice per year to ensure compliance with the North Dakota Century Code.

Management Response – We will make sure that the City Council approves the pledges of securities semi-annually as required by state law.