

# AUDIT REPORT

CITY OF MILNOR  
Milnor, North Dakota

Basic Financial Statements As of  
December 31, 2016  
And Independent Auditor's Report

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V. NELSON CPA, LTD.



CITY OF MILNOR

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CITY OF MILNOR  
Milnor, North Dakota

CITY OFFICIALS

June 28, 2016

Harrison McCleery

Richard Bryant  
Merril Decker  
Terry Dusek  
Charles Faber  
Monty Haugen  
Nannette Severson

Janice Bixby  
Jennie Hanna

Mayor

Council Member  
Vice President  
President  
Council Member  
Council Member  
Council Member

City Auditor  
Deputy Auditor

January 1, 2016

Harrison McCleery

Richard Bryant  
Merril Decker  
Terry Dusek  
Edwin "Bud" Heinert  
Jay McCleery  
Nannette Severson

Janice Bixby

Mayor

Council Member  
Vice President  
President  
Council Member  
Council Member  
Council Member

City Auditor



V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Milnor  
Milnor, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely component units, each major fund, and aggregate remaining fund information of the City of Milnor, North Dakota as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion 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. 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 opinion.

CITY OF MILNOR  
INDEPENDENT AUDITOR'S REPORT-CONTINUED

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milnor, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the years then ended in accordance with the modified cash basis of accounting described in Note C.

**Basis of Accounting**

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

**Other Matters**

*Required Supplementary Information*

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 consider 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.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 35 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Milnor's basic financial statements. The *schedule of fund activity arising from cash transactions* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

CITY OF MILNOR  
INDEPENDENT AUDITOR'S REPORT-CONTINUED

The *schedule of fund activity arising from cash transactions* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity arising from cash transactions* is fairly stated on the modified cash basis of accounting, in all material respects, in relation to the financial statements taken as a whole.

The introductory and statistical sections have 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 them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2019, on our consideration of the City of Milnor'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 Milnor's internal control over financial reporting and compliance.



Versella Nelson  
V. Nelson CPA, Ltd.

May 6, 2019

CITY OF MILNOR  
Milnor, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
December 31, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Milnor Library	Milnor Airport Authority
<b>ASSETS:</b>					
Cash and Investments	\$ 937,111	\$ 723,793	\$ 1,660,904	\$ 5,561	\$ 3,590
<b>LIABILITIES:</b>					
<u>Current Liabilities</u>					
Due Within One Year:					
Refunding Bonds Payable	\$ 141,200	\$ 108,800	\$ 250,000	\$	\$
<u>Noncurrent Liabilities</u>					
Refunding Bonds Payable	1,577,600	1,092,400	2,670,000		
Loan Payable	836,953	0	836,953		
Total Liabilities	<u>\$ 2,555,753</u>	<u>\$ 1,201,200</u>	<u>\$ 3,756,953</u>	<u>\$</u>	<u>\$</u>
<b>NET POSITION:</b>					
Restricted for:					
Streets	\$ 157,681	\$	\$ 157,681	\$	\$
Other Special Purposes	765,540		765,540		
Unrestricted	(2,541,863)	(477,407)	(3,019,270)	5,561	3,590
Total Net Position	<u>\$ (1,618,642)</u>	<u>\$ (477,407)</u>	<u>\$ (2,096,049)</u>	<u>\$ 5,561</u>	<u>\$ 3,590</u>

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

CITY OF MILNOR  
Milnor, North Dakota

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
For the Year Ended December 31, 2016

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	Component Units	
				Governmental Activities	Business-Type Activities		Milnor Library	Milnor Airport
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
General Government	\$ 220,759	\$ 1,201	\$	\$ (219,558)	\$	\$ (219,558)	\$	\$
Public Safety	24,242			(24,242)		(24,242)		
Public Works/Highway	70,255	7,516	55,176	(7,563)		(7,563)		
Conser. of Natural Resources	9,656	425	2,000	(7,231)		(7,231)		
Economic Development	5,000			(5,000)		(5,000)		
Capital Outlay	677,260			(677,260)		(677,260)		
Interest & Fees on Long Term Debt	45,779			(45,779)		(45,779)		
<b>Total Governmental Activities</b>	<b>\$1,052,951</b>	<b>\$ 9,142</b>	<b>\$ 57,176</b>	<b>\$ (986,633)</b>	<b>\$</b>	<b>\$ (986,633)</b>	<b>\$</b>	<b>\$</b>
<b>Business-Type Activities:</b>								
Water	\$ 98,118	\$118,545	\$	\$	\$ 20,427	\$ 20,427	\$	\$
Sewer	64,736	59,454			(5,282)	(5,282)		
Garbage	76,928	75,703			(1,225)	(1,225)		
<b>Total Business-Type Activities</b>	<b>\$ 239,782</b>	<b>\$253,702</b>	<b>\$ 0</b>	<b>\$</b>	<b>\$ 13,920</b>	<b>\$ 13,920</b>	<b>\$</b>	<b>\$</b>
<b>Total Primary Government</b>	<b>\$1,292,733</b>	<b>\$262,844</b>	<b>\$ 57,176</b>	<b>\$ (986,633)</b>	<b>\$ 13,920</b>	<b>\$ (972,713)</b>	<b>\$</b>	<b>\$</b>
<b>Component Units:</b>								
Milnor Library	\$ 0	\$ 0	\$ 0			\$ 0	\$ 0	\$
Milnor Airport	53,390	3,300	19,456			0		(30,634)
<b>Total Component Units</b>	<b>\$ 53,390</b>	<b>\$ 3,300</b>	<b>\$ 19,456</b>			<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (30,634)</b>
<b>General Revenues:</b>								
<b>Taxes:</b>								
Property Taxes; Levied for General Purposes	\$		\$ 65,312	\$	\$ 65,312	\$	\$ 5,280	\$
Property Taxes; Levied for Debt Services			230,688	152,241	382,929			
Property Taxes; Levied for Special Purposes			113,116		113,116			
Non restricted grants and contributions			62,682	792	63,474		12,000	
Earnings on investments			2,164	741	2,905		1	
Miscellaneous Revenue			42,604		42,604		12,502	
Sale of equipment & assets								
Transfers			10,926	(10,926)	0			
<b>Total General Revenues and Transfers</b>	<b>\$ 527,492</b>	<b>\$ 142,848</b>	<b>\$ 670,340</b>	<b>\$ 1</b>	<b>\$ 29,782</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Change in Net Position</b>	<b>\$ (459,141)</b>	<b>\$ 156,768</b>	<b>\$ (302,373)</b>	<b>\$ 1</b>	<b>\$ (852)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net Position-January 1</b>	<b>\$ (1,159,501)</b>	<b>\$ (634,175)</b>	<b>\$ (1,793,676)</b>	<b>\$ 5,560</b>	<b>\$ 4,442</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net Position-December 31</b>	<b>\$ (1,618,642)</b>	<b>\$ (477,407)</b>	<b>\$ (2,096,049)</b>	<b>\$ 5,561</b>	<b>\$ 3,590</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

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



CITY OF MILNOR  
Milnor, North Dakota

BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2016

	Major Funds							Total Govern- mental Funds
	General	Highway	City Sales Tax	Street Improve- ment #01	Street Improve- ment #15	Sewer Water & Street 2016-01	Other Govern- mental Funds	
<u>ASSETS</u>								
Cash and Investments	\$13,890	\$87,502	\$157,681	\$177,483	\$225,008	\$161,593	\$113,954	\$937,111
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities	\$	\$	\$	\$	\$	\$	\$	\$
<u>Fund Balances:</u>								
Restricted								
Restricted for Debt Service	\$	\$	\$	\$177,483	\$ 75,890	\$161,593	\$	\$414,966
Assigned								
Assigned for Highway		87,502						87,502
Assigned for Sales Tax Purposes			157,681					157,681
Assigned for Street Improvement					149,118			149,118
Assigned for Special Revenues							113,954	113,954
Unassigned	13,890							13,890
Total Fund Balances	\$13,890	\$87,502	\$157,681	\$177,483	\$225,008	\$161,593	\$113,954	\$937,111
Total Liabilities and Fund Balances	\$13,890	\$87,502	\$157,681	\$177,483	\$225,008	\$161,593	\$113,954	\$937,111

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

CITY OF MILNOR  
Milnor, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 937,111

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

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. All liabilities-  
both current and long-term are reported in the  
statement of net position. Balances at  
December 31, 2016 are:

Loans	\$ (836,953)	
Refunding Bonds Payable	<u>(1,718,800)</u>	
Total Long-Term Liabilities		<u>(2,555,753)</u>
Total Net Position of Governmental Activities		<u><u>\$(1,618,642)</u></u>

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

CITY OF MILNOR  
Milnor, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

	Major Funds							Total Govern- mental Funds
	General	Highway	City Sales Tax	Street Improve- ment #01	Street Improve- ment #15	Sewer Water & Street 2016-1	Other Govern- mental Funds	
<b>Revenues:</b>								
Taxes	\$ 65,312	\$	\$ 50,039	\$ 88,054	\$ 142,634	\$	\$ 63,077	\$ 409,116
Licenses, Permits & Fees	7,930							7,930
Intergovernmental	55,492	55,176					9,190	119,858
Charges for Services	1,201	7,516					425	9,142
Fines & Forfeitures	10							10
Interest Income	284			286	1,594			2,164
Miscellaneous	29,766	413					4,485	34,664
<b>Total Revenues</b>	<b>\$159,995</b>	<b>\$63,105</b>	<b>\$ 50,039</b>	<b>\$ 88,340</b>	<b>\$144,228</b>	<b>\$ 0</b>	<b>\$ 77,177</b>	<b>\$ 582,884</b>
<b>Expenditures:</b>								
<b>Current:</b>								
General Government	\$138,724	\$	\$	\$	\$	\$	\$ 82,035	\$ 220,759
Public Safety	24,242							24,242
Public Works		70,255						70,255
Conser. of Natural Resources			7,506	0			2,150	9,656
Economic Development			5,000					5,000
Capital Outlay				1,400		675,360	500	677,260
Debt Service:								
Principal				63,000	85,000		0	148,000
Interest & Service Charges				10,345	35,434		0	45,779
<b>Total Expenditures</b>	<b>\$162,966</b>	<b>\$70,255</b>	<b>\$ 12,506</b>	<b>\$ 74,745</b>	<b>\$120,434</b>	<b>\$ 675,360</b>	<b>\$ 84,685</b>	<b>\$1,200,951</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (2,971)	\$ (7,150)	\$ 37,533	\$ 13,595	\$ 23,794	\$ (675,360)	\$ (7,508)	\$ (618,067)
<b>Other Financing Sources (Uses):</b>								
Loan Proceeds	\$	\$	\$	\$	\$	\$ 836,953	\$	\$ 836,953
Sale of Land & Equipment			0					
Transfers In	5,939						18,705	24,644
Transfers Out	(7,779)		0		0		(5,939)	(13,718)
<b>Total Other Financing Sources and Uses</b>	<b>\$ (1,840)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$</b>	<b>\$</b>	<b>\$ 836,953</b>	<b>\$ 12,766</b>	<b>\$ 847,879</b>
<b>Net Change in Fund Balances</b>	<b>\$ (4,811)</b>	<b>\$ (7,150)</b>	<b>\$ 37,533</b>	<b>\$ 13,595</b>	<b>\$ 23,794</b>	<b>\$ 161,593</b>	<b>\$ 5,258</b>	<b>\$ 229,812</b>
Fund Balance- January 1	\$ 18,701	\$94,652	\$120,148	\$163,888	\$201,214	\$ 0	\$108,696	\$ 707,299
Fund Balance- December 31	\$ 13,890	\$87,502	\$157,681	\$177,483	\$225,008	\$ 161,593	\$113,954	\$ 937,111

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

CITY OF MILNOR  
Milnor, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
-MODIFIED CASH BASIS

For the Year Ended December 31, 2016

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ 229,812
The change in net position reported for governmental activities in the statement of activities is different because:	
The issuance of long-term obligations provides current financial resources to government funds, but issuing debt or entering into lease purchase obligations also increases long-term liabilities in the Statement of Net Position.	
	(836,953)
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 the repayment of debt.	<u>148,000</u>
Change in Net Position of Governmental Activities	<u>\$ (459,141)</u>

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

CITY OF MILNOR  
Milnor, North Dakota

STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Garbage	Total
ASSETS:				
<u>Current Assets:</u>				
Cash	\$ 362,120	\$ 353,981	\$ 7,692	\$ 723,793
LIABILITIES:				
<u>Current Liabilities:</u>				
Refunding Bonds Payable	\$	\$ 113,800	\$	\$ 113,800
Total Current Liabilities	\$	\$ 113,800	\$	\$ 113,800
<u>Noncurrent Liabilities:</u>				
Refunding Bonds Payable	\$	\$ 1,087,400	\$	\$ 1,087,400
Total Noncurrent Liabilities	\$	\$ 1,087,400	\$	\$ 1,087,400
Total Liabilities	\$	\$ 1,201,200	\$	\$ 1,201,200
NET POSITION:				
Unrestricted	\$ 362,120	\$ (847,219)	\$ 7,692	\$ (477,407)
Total Net Position	\$ 362,120	\$ (847,219)	\$ 7,692	\$ (477,407)

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

CITY OF MILNOR  
Milnor, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Garbage	Total
<u>Operating Revenues:</u>				
Charges for Services	\$ 118,545	\$ 59,454	\$75,703	\$ 253,702
<u>Operating Expenses:</u>				
Salaries	\$ 20,864	\$ 20,864	\$20,863	\$ 62,591
Medical Insurance	14,460	18,075		32,535
Electricity	3,705	1,052		4,757
Repairs & Maintenance	6,627	1,293		7,920
Water Contract	43,497			43,497
New Hook-up Expense	250	250		500
Garbage Contract			54,354	54,354
Miscellaneous	8,715	4,809	1,711	15,235
Total Operating Expenses	\$ 98,118	\$ 46,343	\$76,928	\$ 221,389
Operating Income (Loss)	\$ 20,427	\$ 13,111	\$(1,225)	\$ 32,313
<u>Nonoperating Revenues (Expenses):</u>				
Miscellaneous Revenue	\$ 741	\$	\$	\$ 741
Interest Income	294	498		792
Special Assessments	10,928	141,313		152,241
Debt Service:				
Interest		(17,685)		(17,685)
Bank Service Charges		(708)		(708)
Total Nonoperating Revenues (Expenses)	\$ 11,963	\$ 123,418	\$ 0	\$ 135,381
Net Income (Loss) Before Transfers	32,390	136,529	(1,225)	167,694
Transfer Out		(10,926)		(10,926)
Total Transfers		(10,926)		(10,926)
Change in Net Position	\$ 32,390	\$ 125,603	\$(1,225)	\$ 156,768
Net Position-January 1	\$ 329,730	\$ (972,822)	\$ 8,917	\$ (634,175)
Net Position-December 31	\$ 362,120	\$ (847,219)	\$ 7,692	\$ (477,407)

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

CITY OF MILNOR  
Milnor, North Dakota

STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$118,545	\$ 59,454	\$ 75,703	\$ 253,702
Payments to Suppliers	(77,254)	(25,479)	(56,065)	(158,798)
Payments to Employees	(20,864)	(20,864)	(20,863)	(62,591)
Net Cash Provided (Used) by Operating Activities	<u>\$ 20,427</u>	<u>\$ 13,111</u>	<u>\$ (1,225)</u>	<u>\$ 32,313</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Special Assessments	\$ 10,928	\$ 141,313	\$	\$ 152,241
Miscellaneous Revenues	741			741
Transfer Out		(10,926)		(10,926)
Net Cash Provided by Noncapital Financing Activities	<u>\$ 11,669</u>	<u>\$ 130,387</u>	<u>\$</u>	<u>\$ 142,056</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Principal Paid on Long-Term Debt	\$	\$ (112,000)	\$	\$ (112,000)
Interest Paid		(17,685)		(17,685)
Bank Service Charges Paid		(708)		(708)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$</u>	<u>\$ (130,393)</u>	<u>\$</u>	<u>\$ (130,393)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest Income	\$ 294	\$ 498	\$	\$ 792
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 32,390</u>	<u>\$ 13,603</u>	<u>\$ (1,225)</u>	<u>\$ 44,768</u>
Cash and Cash Equivalents, January 1	<u>\$329,730</u>	<u>\$ 340,378</u>	<u>\$ 8,917</u>	<u>\$ 679,025</u>
Cash and Cash Equivalents, December 31	<u>\$362,120</u>	<u>\$ 353,981</u>	<u>\$ 7,692</u>	<u>\$ 723,793</u>

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

CITY OF MILNOR  
Milnor, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2016

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

The City of Milnor, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a City Commission form of government. The accounting policy of the City of Milnor, 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 city does not maintain capital asset records for the governmental and business-type activities, including accumulated depreciation. 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 Milnor. 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 Milnor 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 Milnor.

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

COMPONENT UNITS

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 as discretely presented component unit.

Discretely Presented Component Unit - The component unit's column in the government wide financial statements include the financial data of the city's component units. These units are reported in a separate column to emphasize that they are legally separate from the city.

Milnor Municipal Airport Authority - The Milnor Municipal Airport Authority's governing board is appointed by the city's governing body. The city's governing board has the authority to approve, disapprove or amend the airport authority's budget.

Milnor Public Library - The Milnor Public Library's governing board is appointed by the city's governing body. The city's governing board has the authority to approve, disapprove or amend the city library's budget.



CITY OF MILNOR

Notes to the Financial Statements-Continued

Component Unit Financial Statements - The financial statements of the discretely presented component unit are presented in the financial statements. Complete financial statements of the component unit can be obtained directly from the administrative office of the city:

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and the component units of the City of Milnor. 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 services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

The fund financial statements provide information about the city's funds including its discretely presented component unit. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from non-exchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

*Highway Distribution Fund.* This fund is used to account for taxes received for streets and highways and for repair and maintenance projects to the city streets and roads.

*City Sales Tax Fund.* This fund accounts for sales tax money for the city that is used from time to time for various economic development and city improvement projects.

CITY OF MILNOR

Notes to the Financial Statements-Continued

*Street Improvement #01, Street Improvement #15, and sewer, water & street #2016-1.* These funds account for the accumulation of resources that are restricted, committed, or assigned to expenditures for long-term debt principal, interest, and related costs associated to the street improvement projects.

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 Milnor. It is also used to account for principal and interest payments on water revenue bonds.

*Sewer Fund.* This fund accounts for the activity of the Sewer Department. The department operates the waste water collection system in the City of Milnor. It is also used to account for the principal and interest payments on sewer revenue bonds.

*Garbage Fund.* This fund accounts for the activities of the garbage collection system within the City of Milnor.

Additionally, the city reports the following fund type:

*Agency Funds.* These funds account for assets held by the City in a custodial capacity as an agent on behalf of others. The City's agency fund is used to account for various deposits of other governments.

C. Measurement Focus and Basis of Accounting

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

MEASUREMENT FOCUS

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

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

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

CITY OF MILNOR

Notes to the Financial Statements-Continued

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like, fiduciary fund, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis 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.

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. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits. Cash equivalents on the statement of cash flows consist of highly liquid investments with an original maturity of three months or less. 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 secured with pledges of securities equal to 110% of the uninsured balance.

The investments of the City at December 31, 2016, consist of certificates of deposit stated at cost.

E. Fund Balances/Net Position

In the governmental fund financial statements fund balance is reported in five classifications. Nonspendable fund balance is the amount that is not in spendable form. Restricted for debt service is the portion of fund balance that is restricted for use on loan payments. Committed is that portion of fund balance that has been approved by the highest level of formal action of the city council and does not lapse at year-end. The city does not have any committed fund balance this fiscal year. Assigned is the portion of fund balance that has been approved by formal action of the city council and does lapse at year end.

CITY OF MILNOR

Notes to the Financial Statements-Continued

E. Fund Balances/Net Position (Con't)

Unassigned is the fund balance that has not been reported in any other classification. The City of Milnor, North Dakota does not have a revenue spending policy that provides policy for programs with multiple revenue sources. The Auditor uses resources in following hierarchy bond proceeds, federal funds, state funds and local funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The city has the authority to deviate from this policy if it is in the best interest of the city. There is no stabilization amounts. The city has not set a minimum fund balance.

Net Position

With 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.

Prior to GASB 63, amounts were reported as equity on the statement of net assets in two primary categories (restricted and unrestricted). Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in two primary categories (restricted and unrestricted), outlined in further detail as follows:

Restrictions of net position shown in the statement of net position are due to restricted tax levies, restricted Federal & State grants/reimbursements, and restricted amounts for unspent bond proceeds reported in debt service and capital projects funds. Additionally, restricted net position is shown in the statement of net position by primary function as fund balances are shown in the balance sheet, and is restricted for debt service, highways, economic development, capital projects and special purposes.

Unrestricted net position consists of activity primarily related to the general fund amounts at year-end. The unrestricted net position is available to meet the City's ongoing obligations.

CITY OF MILNOR  
Notes to the Financial Statements-Continued

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The city's governing board approved the following amendments to the city budget:  
For the Year Ended December 31, 2016:

<u>Fund</u>	<u>Original Budget</u>	<u>Revenues Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 68,275	\$ 97,659	\$ 165,934
Emergency	4,400	117	4,517
Highway Distribution	65,100	(1,995)	63,105
Equipment Reserve	31,000	(5,985)	25,015
City Sales Tax	30,000	20,038	50,038
Library Fund	1,100	4,211	5,311
Airport Authority Fund	2,640	49,898	52,538
Special Assessments Fund	27,000	5,738	32,738
Sebens Building Fund	60	40,391	40,451
Water Channel #1 Fund	11,468	31	11,499
Mund East Acres	12,975	(1,874)	11,101
Water Improvement #1	37	10	47
Sewer Improvement	130,900	10,911	141,811
Street Improvement #01	93,200	(4,860)	88,340
Street Improvement #15	143,858	369	144,227
Water Reserve	77	17	94
Sewer, Water & Street #16-1	0	836,953	836,953

<u>Fund</u>	<u>Original Budget</u>	<u>Expenditures Amendments</u>	<u>Amended Budget</u>
General Fund	\$165,388	\$ 5,357	\$ 170,745
Special Assessments Fund	56,900	(10,185)	46,715
Library Fund	8,245	(2,934)	5,311
Airport Authority Fund	14,825	38,565	53,390
Highway Fund	81,700	(11,445)	70,255
Emergency Fund	6,518	(5,673)	845
Sebens Building Fund	500	40,898	41,398
Sales Tax Fund	31,500	(18,994)	12,506
Equipment Reserve Fund	30,000	(29,500)	500
Sewer Improvement	131,034	(641)	130,393
Street Improvement #01	75,508	(762)	74,746
Street Improvement #15	120,534	(100)	120,434
Sewer, Water & Street #16-1	0	675,360	675,360

EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget in the following funds: None

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

CITY OF MILNOR

Notes to the Financial Statements-Continued

**NOTE 3: DEPOSITS AND INVESTMENTS**

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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 any other state of the United States or such other securities approved by the banking board.

At year end December 31, 2016, the city's carrying amount of deposit was \$1,793,888 and the bank balance was \$1,811,128. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$1,561,128 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, 2016, the city held certificates of deposit in the amount of \$12,646 which is considered a deposit.

Interest Rate Risk:

The city doesn't have a formal deposit policy that limits maturities as a means of managing exposure to fair-value losses arising from increasing interest rates.

CITY OF MILNOR  
Notes to the Financial Statements-Continued

**NOTE 3: DEPOSITS AND INVESTMENTS (CON'T)**

Concentration of Credit Risk:

The city does not have a limit on the amount the city may invest in any one issuer.

**NOTE 4: PROPERTY TAXES**

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

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

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

**NOTE 5: LONG-TERM DEBT**

Changes in Long-Term Liabilities - During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

Governmental Fund Debt:

	<u>2016</u>			Balance December 31	Due Within One Year
	Balance January 1	Additions	Reductions		
Refunding Bonds 2015	\$1,410,000	\$	\$ 85,000	\$1,325,000	\$ 80,000
Refunding Bonds 2013	456,800		63,000	393,800	61,200
Definitive Improvement		836,953	0	836,953	0
<b>Total</b>	<b>\$1,866,800</b>	<b>\$ 836,953</b>	<b>\$148,000</b>	<b>\$2,555,753</b>	<b>\$141,200</b>

Outstanding debt at December 31, 2016, consists of the following issues:

**LOAN**

\$1,100,000 Definitive Improvement Warrant, Series 2016 due in annual installments through September, 2046; interest at 2.0%. Amortization will come after final loan advance. \$ 836,953

**Refunding Bonds:**

\$1,410,000 Refunding Bonds of 2015, due in annual installments of \$85,000 to \$115,000 through 2030; interest at 1.25% to 3.5%. \$1,325,000

CITY OF MILNOR  
Notes to the Financial Statements-Continued

**NOTE 5: LONG-TERM DEBT (CON' T)**

\$590,000 Refunding Bonds of 2013, due in annual installments of \$50,000 to \$68,400 through 2026; interest at .4% to 2.6%. 393,800

Total Governmental Fund Long-Term Debt \$2,555,753

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

Year Ending December 31	Bonds 2013			Bonds 2015		
	Principal	Interest	Totals	Principal	Interest	Totals
2017	\$ 61,200	\$ 9,545	\$ 70,745	\$ 80,000	\$ 33,953	\$ 113,953
2018	59,400	9,078	68,478	85,000	32,921	117,921
2019	57,600	8,537	66,137	85,000	31,540	116,540
2020	54,000	7,952	61,952	85,000	29,840	114,840
2021	54,000	7,304	61,304	90,000	28,090	118,090
2022 to 2026	107,600	22,609	130,209	470,000	106,815	576,815
2027 to 2030				430,000	30,975	460,975
Total	\$ 393,800	\$ 65,025	\$458,825	\$1,325,000	\$294,134	\$1,619,134

**ENTERPRISE FUND DEBT:**

The enterprise fund debt is reported on the balance sheet in the enterprise funds. The long-term debt of the enterprise fund is as follows:

	2016				
	Balance January 1	Additions	Reductions	Balance December 31	Due Within One Year
Refunding Bonds 2013	\$1,313,200	\$	\$ 112,000	\$1,201,200	\$108,800
Total	\$1,313,200	\$	\$ 112,000	\$1,201,200	\$108,800

**Bonds:**

\$1,550,000 Refunding Bonds of 2013, due in annual installments of \$55,000 to \$121,600 through 2033; interest at .4% to 2.9%. \$1,201,200

Total Bonds \$1,201,200

Total Enterprise Fund Long-Term Debt \$1,201,200

The annual requirements to amortize outstanding debt is as follows:

Year Ending December 31	Bonds		
	Principal	Interest	Total
2017	\$ 108,800	\$ 16,968	\$ 125,768
2018	105,600	16,138	121,738
2019	102,400	15,178	117,578
2020	96,000	14,138	110,138
2021	96,000	12,986	108,986
2022-2026	247,400	58,168	305,568
2027-2031	325,000	40,085	365,085
2032-2033	120,000	3,335	123,335
Total	\$1,201,200	\$ 176,996	\$1,378,196



**CITY OF MILNOR**

Notes to the Financial Statements-Continued

**NOTE 6: RISK MANAGEMENT**

The City of Milnor 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 Milnor 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 one million dollars per occurrence for general liability and automobile insurance and to \$470,523 for inland marine coverage.

The City of Milnor also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Milnor 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. The State Bonding Fund currently provides the City of Milnor with blanket fidelity bond coverage in the amount of \$415,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Milnor has workers compensation with the North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

**NOTE 7: PENSION PLAN**

The City of Milnor provides a defined contribution pension plan for full time city employees. To participate, each employee must agree to contribute 3% of their earnings. Voluntary additional amounts may be made towards the plan by the employee if in compliance with the plan. The city will match each participants 3% contribution. Obligations to contribute are established by city ordinance. Each participant has an account maintained under his or her own name. A deduction for the pension plan is made monthly and forwarded to the plan account. Upon termination of employment, a participant receives 100% of the value of his or her mandatory and voluntary contributions and the city's contributions if fully vested. An employee is fully vested at 10 years. The city's share of pension costs for the years ended December 31, 2016, 2015, and 2014, was \$4,701, \$3,725, and \$1,688 respectively.

CITY OF MILNOR

Notes to the Financial Statements-Continued

NOTE 8: TRANSFERS

The following is a reconciliation of transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

	<u>2016</u>	
	<u>Transfer In</u>	<u>Transfers Out</u>
<u>Governmental Funds:</u>		
General Fund	\$ 5,939	\$ 7,779
Social Security	10,926	
Advertising	2,351	
Insurance Reserve	833	
Employee Pension	4,595	
Forestry Fund		5,939
Sewer Lagoon		<u>10,926</u>
	<u>\$24,644</u>	<u>\$24,644</u>

NOTE 9: SUBSEQUENT EVENT

The City of Milnor is issuing a Definitive Improvement Warrant 2016 for \$1,545,400. The balance was \$836,953 as of December 31, 2016. The Record of Advances shows advances of \$179,054 during 2017, bringing the total to \$1,016,007.

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
GENERAL FUND

For the Year Ended December 31, 2016

2016

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Budget</u>	<u>Budget</u>	<u>Final</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Taxes	\$ 0	\$ 65,312	\$ 65,312	\$
Licenses, Permits & Fees	3,680	7,930	7,930	
Intergovernmental	60,000	55,492	55,492	
Charges for Services	900	1,201	1,201	
Fines and Forfeitures	125	10	10	
Interest Income	270	284	284	
Miscellaneous	3,300	29,766	29,766	
<b>Total Revenues</b>	<b>\$ 68,275</b>	<b>\$159,995</b>	<b>\$159,995</b>	<b>\$</b>
<u>Expenditures:</u>				
Current:				
General Government	\$139,954	\$138,724	\$138,724	\$
Public Safety	25,434	24,242	24,242	
Public Works				
Capital Outlay				
<b>Total Expenditures</b>	<b>\$165,388</b>	<b>\$162,966</b>	<b>\$162,966</b>	<b>\$</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (97,113)	\$ (2,971)	\$ (2,971)	\$
<u>Other Financing Sources (Uses):</u>				
Sale of Land & Equipment	\$	\$ 5,939	\$ 5,939	\$
Transfer In				
Transfer Out		(7,779)	(7,779)	
<b>Total Other Financing Sources and Uses</b>	<b>\$ 0</b>	<b>\$ (1,840)</b>	<b>\$ (1,840)</b>	<b>\$</b>
<b>Net Change in Fund Balances</b>	<b>\$ (97,113)</b>	<b>\$ (4,811)</b>	<b>\$ (4,811)</b>	<b>\$</b>
Fund Balance-January 1	\$ 18,701	\$ 18,701	\$ 18,701	\$
Fund Balance-December 31	\$ (78,412)	\$ 13,890	\$ 13,890	\$

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

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
HIGHWAY DISTRIBUTION FUND

For the Year Ended December 31, 2016

2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 61,000	\$ 55,176	\$ 55,176	\$
Charges for Services	3,800	7,516	7,516	
Miscellaneous	300	413	413	
	<hr/>			
Total Revenues	\$ 65,100	\$ 63,105	\$ 63,105	\$
<hr/>				
<u>Expenditures:</u>				
Current:				
Public Works	\$ 81,700	\$ 70,255	\$ 70,255	\$
	<hr/>			
Excess (Deficiency) of Revenues Over Expenditures	\$ (16,600)	\$ (7,150)	\$ (7,150)	\$
	<hr/>			
Fund Balances-January 1	\$ 94,652	\$ 94,652	\$ 94,652	\$
	<hr/>			
Fund Balances-December 31	\$ 78,052	\$ 87,502	\$ 87,502	\$
	<hr/> <hr/>			

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

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
CITY SALES TAX

For the Year Ended December 31, 2016

2016

	<u>Original</u>	<u>Final</u>	<u>Variance with</u>	
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>
<u>Revenues:</u>				
Taxes	\$ 30,000	\$ 50,039	\$ 50,039	\$ _____
Total Revenues	\$ 30,000	\$ 50,039	\$ 50,039	\$ _____
<u>Expenditures:</u>				
Economic Development	\$ 10,000	\$ 5,000	\$ 5,000	\$ _____
Capital Outlay	15,000			
Conser. of Natural Resources	6,500	7,506	7,506	\$ _____
Total Expenditures	\$ 31,500	\$ 12,506	\$ 12,506	\$ _____
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,500)	\$ 37,533	\$ 37,533	\$ _____
<u>Other Financing Sources (Uses):</u>				
Transfer In	0	0	0	
Net Change in Fund Balance	\$ (1,500)	\$ 37,533	\$ 37,533	\$ _____
Fund Balance January 1	\$120,148	\$120,148	\$120,148	\$ _____
Fund Balance December 31	\$118,648	\$157,681	\$157,681	\$ _____

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

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
SEWER, WATER & STREET 2016-01  
For the Year Ended December 31, 2016

	<u>2016</u>			
	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 0	\$ 0	\$ 0	\$
Total Revenues	\$ 0	\$ 0	\$ 0	\$
<u>Expenditures:</u>				
Current				
Capital Outlay	\$ 0	\$ 675,360	\$ 675,360	\$
Total Expenditures	\$ 0	\$ 675,360	\$ 675,360	\$
Excess (Deficiency) of Revenues Over Expenditures	\$ 0	\$ (675,360)	\$ (675,360)	\$
<u>Other Financing Sources (Uses)</u>				
Loan Proceeds	0	836,953	836,953	
Total Other Financing Sources and (Uses)	\$ 0	\$ 836,953	\$ 836,953	\$
Net Change in Fund Balance	\$ 0	\$ 161,593	\$ 161,593	\$
Fund Balances-January 1	\$ 0	\$ 0	\$ 0	\$
Fund Balances-December 31	\$ 0	\$ 161,593	\$ 161,593	\$

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

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
STREET IMPROVEMENT FUND #01  
For the Year Ended December 31, 2016

	<u>2016</u>			
	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 93,000	\$ 88,054	\$ 88,054	\$
Intergovernmental				
Interest Income	200	286	286	
<b>Total Revenues</b>	<u>\$ 93,200</u>	<u>\$ 88,340</u>	<u>\$ 88,340</u>	<u>\$</u>
<u>Expenditures:</u>				
Capital Outlay	\$	\$ 1,400	\$ 1,400	\$
Debt Service Principal	64,800	63,000	63,000	
Interest & fees	10,708	10,345	10,345	
<b>Total Expenditures</b>	<u>\$ 75,508</u>	<u>\$ 74,745</u>	<u>\$ 74,745</u>	<u>\$</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 17,692</u>	<u>\$ 13,595</u>	<u>\$ 13,595</u>	<u>\$</u>
<u>Other Financing Sources (Uses)</u>				
Transfer Out	\$ 0	\$ 0	\$ 0	\$
Bond Proceeds	0			
<b>Total Other Financing Sources and Uses</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$</u>
<b>Net Change in Fund Balances</b>	<u>\$ 17,692</u>	<u>\$ 13,595</u>	<u>\$ 13,595</u>	<u>\$</u>
Fund Balances-January 1	<u>\$163,888</u>	<u>\$163,888</u>	<u>\$163,888</u>	<u>\$</u>
Fund Balances-December 31	<u><u>\$181,580</u></u>	<u><u>\$177,483</u></u>	<u><u>\$177,483</u></u>	<u><u>\$</u></u>

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

CITY OF MILNOR  
Milnor, North Dakota

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS  
STREET IMPROVEMENT FUND #15

For the Year Ended December 31, 2016

2016

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with</u>
	<u>Budget</u>	<u>Budget</u>	<u>Final</u>	<u>Budget</u>
<u>Revenues:</u>				
Taxes	\$143,858	\$142,634	\$142,634	\$
Intergovernmental				
Interest Income		1,594	1,594	
<b>Total Revenues</b>	<u>\$143,858</u>	<u>\$144,228</u>	<u>\$144,228</u>	<u>\$</u>
<u>Expenditures:</u>				
Debt Service Principal	\$ 85,000	\$ 85,000	\$ 85,000	\$
Interest & fees	35,534	35,434	35,434	
<b>Total Expenditures</b>	<u>\$120,534</u>	<u>\$120,434</u>	<u>\$120,434</u>	<u>\$</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 23,324</u>	<u>\$ 23,794</u>	<u>\$ 23,794</u>	<u>\$</u>
<u>Other Financing Sources (Uses)</u>				
Transfer Out	\$ 0	\$ 0	\$ 0	\$
<b>Total Other Financing Sources and Uses</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$</u>
<b>Net Change in Fund Balances</b>	<u>\$ 23,324</u>	<u>\$ 23,794</u>	<u>\$ 23,794</u>	<u>\$</u>
<b>Fund Balances-January 1</b>	<u>\$201,214</u>	<u>\$201,214</u>	<u>\$201,214</u>	<u>\$</u>
<b>Fund Balances-December 31</b>	<u>\$224,538</u>	<u>\$225,008</u>	<u>\$225,008</u>	<u>\$</u>

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



CITY OF MILNOR  
Milnor, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2016

NOTE 1: BUDGETS

The city council 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. The budget is prepared for the general fund, each special revenue fund and each debt service fund. The city is required to present the adopted and final amended budgeted receipts and disbursements for each of these funds.

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

1. The city council make a preliminary budget annually on or before September 10th. The budget includes proposed expenditures and a means of financing them. NDCC 40-40-04
2. The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies required in the preliminary budget.
3. After the budget hearing and on or before October seventh, the board adopts the final budget. The final budget must be filed with the county auditor by October tenth. NDCC 40-40-09
4. No disbursements 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 receipts 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.
5. All annual appropriations lapse at year-end.

CITY OF MILNOR  
Milnor, North Dakota

SCHEDULE OF FUND ACTIVITY  
ARISING FROM CASH TRANSACTIONS  
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
<b>Governmental Funds:</b>						
General Fund	\$ 18,701	\$ 159,995	\$ 5,939	\$ 7,779	\$ 162,966	\$ 13,890
Street Improvement #15	201,214	144,228			120,434	225,008
Street Improvement #01	163,888	88,340			74,745	177,483
Highway	94,652	63,105			70,255	87,502
City Sales Tax	120,148	50,039			12,506	157,681
Sewer, Water & Street	0	836,953			675,360	161,593
<b>Nonmajor Funds:</b>						
Equipment Reserve	\$ 33,173	\$ 25,015	\$	\$	\$ 500	\$ 57,688
Emergency	7,182	4,517			845	10,854
Special Assessments	28,086	32,737			46,715	14,108
Social Security	639	476	10,926		12,041	0
Advertising	654	43	2,351		3,048	0
Insurance Reserve	2,155	229	833		3,217	0
Employee Pension	0	106	4,595		4,701	0
Forestry Fund	5,581	2,508		5,939	2,150	0
Water Improvement	31,226	47				31,273
Water Channel #1	0	11,499			11,468	31
<b>Total Nonmajor Funds</b>	<b>\$ 108,696</b>	<b>\$ 77,177</b>	<b>\$18,705</b>	<b>\$ 5,939</b>	<b>\$ 84,685</b>	<b>\$ 113,954</b>
<b>Total Governmental Funds</b>	<b>\$ 707,299</b>	<b>\$1,419,837</b>	<b>\$24,644</b>	<b>\$13,718</b>	<b>\$1,200,951</b>	<b>\$ 937,111</b>
<b>Enterprise Funds:</b>						
<b>Major Funds:</b>						
Mund East Acres Improvement	\$ 98,303	\$ 11,101	\$	\$	\$ 0	\$ 109,404
Water System O & M Fund	177,189	119,313			98,118	198,384
Water System O & M Federal	12,023	0			0	12,023
Water System Reserve	42,215	94			0	42,309
Garbage and Landfill	8,917	75,703			76,928	7,692
Sewer Lagoon	45,109	59,454		10,926	46,343	47,294
Sewer Improvement Constr.	295,269	141,811			130,393	306,687
<b>Total Enterprise Funds</b>	<b>\$ 679,025</b>	<b>\$ 407,476</b>	<b>\$</b>	<b>\$10,926</b>	<b>\$ 351,782</b>	<b>\$ 723,793</b>
<b>Agency Funds:</b>						
Payroll Clearing Account	\$ 140	\$ 60,851	\$	\$	\$ 60,911	\$ 80
Sebens Building	124,700	40,451			41,398	123,753
<b>Total Agency Funds</b>	<b>\$ 124,840</b>	<b>\$ 101,302</b>	<b>\$</b>	<b>\$</b>	<b>\$ 102,309</b>	<b>\$ 123,833</b>
Discretely Presented						
<b>Component Units:</b>						
Library	\$ 5,560	\$ 1	\$	\$	\$	\$ 5,561
Airport	4,442	52,538			53,390	3,590
<b>Total Component Units</b>	<b>\$ 10,002</b>	<b>\$ 52,539</b>	<b>\$</b>	<b>\$</b>	<b>\$ 53,390</b>	<b>\$ 9,151</b>
<b>Total Reporting Entity</b>	<b>\$1,521,166</b>	<b>\$1,981,154</b>	<b>\$24,644</b>	<b>\$24,644</b>	<b>\$1,708,432</b>	<b>\$1,793,888</b>



V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

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

To the City Council  
City of Milnor  
Milnor, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Milnor, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Milnor, North Dakota's basic financial statements and have issued our report thereon dated May 6, 2019. The independent auditor's report was adverse because the city prepares its financial statements on the modified cash basis and the city has not recorded capital assets and depreciation.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Milnor, North Dakota'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 Milnor, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Milnor, North Dakota'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 have not been 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 and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. (We consider the deficiencies described in the accompanying schedule of finds and responses to be material weaknesses. They are listed as 05-1 and 05-2.)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. They are listed as 05-3 and 05-4.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Milnor, North Dakota'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 a objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **City of Milnor, North Dakota's Response to Findings**

The City of Milnor, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Milnor's response was 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.

V. Nelson CPA, Ltd.

V. Nelson CPA, Ltd.

Oakes, North Dakota  
May 6, 2019

CITY OF MILNOR  
Milnor, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial statements

Type of Auditor's Report Issued?	
Governmental Activities	Adverse
Business-Type Activities	Adverse
Discretely Presented Component Unit	Adverse
Major Governmental Funds	Unqualified
Major Business-Type Funds	Adverse
Aggregate Remaining Fund Information	Unqualified

Internal Control over financial reporting:

Material weakness(es) identified:  Yes  No

Reportable condition(s) identified not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted:  Yes  No

Section II - Financial Statement Findings

The following findings are considered material weaknesses:

05-1 - CAPITAL ASSET RECORDS

Condition - The City of Milnor, North Dakota, does not maintain complete capital asset records.

Criteria - Accounting principles generally accepted in the United States of America require the financial statements include the capital assets, net of accumulated depreciation.

Effect - The omission of capital assets from the financial statements results in an incomplete presentation of the City of Milnor's financial statements and an adverse report on the city's financial statements.

Recommendation - The city should establish capital asset records using historical cost and depreciation schedules for these assets. Also detailed capital asset records showing additions and deletions should be maintained.

Client Response - The city plans to establish and maintain adequate capital asset records as time allows.

CITY OF MILNOR  
Schedule of Findings and Responses

**05-2 - SEGREGATION OF DUTIES**

Condition - The City of Milnor, North Dakota has one city auditor responsible for most accounting functions.

Criteria - There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the city.

Effect - There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

Recommendation - Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response - No response is considered necessary.

The following findings are considered significant deficiencies:

**05-3 - MONITORING OF CONTROLS**

Condition - Management and the Council have not documented performing either ongoing or separate evaluations of their system of internal control.

Criteria - The framework for effective internal control over financial reporting states that monitoring should be performed to assess the quality of the company's system of internal control.

Effect - The governmental unit's controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatement in a timely manner.

Recommendation - The council and management should document their evaluations of the internal control system in the minutes.

Client Response - Due to the size of the city, it is not feasible to change the internal controls. The council will continue monitoring the controls.

**05-4 - CONTROLS OVER THE FINANCIAL REPORTING PROCESS**

Condition - The city auditor has full controls over the computer's financial reporting process.

Criteria - For effective internal controls over financial reporting you should split up the controls.

Effect - She has full controls to initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

CITY OF MILNOR

Schedule of Findings and Responses

05-4 - CONTROLS OVER THE FINANCIAL REPORTING PROCESS (CON'T)

Recommendation - The city auditor having full controls over the computer's financial reporting process is common in an entity this size. The Management and the Council need to continually monitor the financial reporting process, especially since there is only one city auditor.

Client Response - Due to the size of the city, it is not feasible to split up the controls. The council will continue to monitor this condition.

# COMMUNICATION WITH BOARD

CITY OF MILNOR  
MILNOR, NORTH DAKOTA

FOR THE YEAR ENDED  
DECEMBER 31, 2016

V. NELSON CPA, LTD.  
516 MAIN AVE.  
OAKES, ND 58474

**V. NELSON CPA, LTD.**







V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

MANAGEMENT LETTER

City Council  
City of Milnor  
Milnor, North Dakota

Our audit of the financial records of the City of Milnor, North Dakota, for the year ended December 31, 2016, has disclosed opportunities for improvements in the operations of the city. Items that we believe should be brought to your attention are set forth below:

CAPITAL ASSET RECORDS

The city does not have complete capital asset records, including an accurate detail of current capital assets or a schedule of additions and deletions by function. Furthermore, the city does not have a capital asset policy.

We recommend that the city establish fixed asset accounting records. We also recommend that the city implement a capital asset policy, including an appropriate depreciation method (e.g., straight-line), as well as a minimum threshold for capitalization and useful lives for various asset classifications.

MONITORING

The council should continue to monitor the financial records.

This letter is intended for the information of the city council and management of the City of Milnor. However, this letter is a matter of public record and its distribution is not limited.

Thank you to the council and the employees of the City of Milnor for the courteous and friendly assistance we received during the course of our audits. It is a pleasure for us to be able to serve the City of Milnor.

*Versella Nelson, CPA*

Versella Nelson, CPA  
V. Nelson CPA, Ltd.

May 6, 2019



V. NELSON CPA LTD.

516 Main Avenue  
Oakes, ND 58474  
(701)742-3375  
fax(701)742-3376

May 6, 2019

To the City Council  
City of Milnor

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Milnor for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 10, 2018. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Milnor are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. The city has chosen not to prepare the Management's discussion and Analysis; thus it is not presented. We noted no transactions entered into by the City of Milnor during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statements disclosures are neutral, consistent, and clear.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

##### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

##### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial

accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 6, 2019.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City of Milnor's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### *Other Matters*

We applied certain limited procedures to budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedule of fund activity arising from cash transactions, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the city council and management of the City of Milnor and is not intended to be, and should not be, used by anyone other than those specified parties. However, this report is a matter of public record, and its distribution is not limited. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Very truly yours,

*V. Nelson CPA, Ltd.*

V. NELSON CPA, LTD.

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V. NELSON CPA LTD.