

***CITY OF ROLETTE***

AUDIT REPORT

December 31, 2016

**CITY OF ROLETTE**  
**ROLETTE, NORTH DAKOTA**

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For The Year Ended December 31, 2016

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**CITY OF ROLETTE**

**LIST OF OFFICIALS**

**December 31, 2016**

Mayor	Blaine Scott
President	Andy Gilje
Vice President	Debbie Anklam
Council Member	Nathan Casavant
Council Member	Randy Rost
City Auditor	Kim Azure
Attorney	Bruce Gibbons

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Rolette  
Rolette, North Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rolette, 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 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 fraud or error.

### **Auditor's Responsibility**

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

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

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

## INDEPENDENT AUDITOR'S REPORT

### **Basis for Adverse Opinion on Governmental and Business-Type Activities, Proprietary Funds, and Discretely Presented Component Unit**

Management has not recorded capital assets in the governmental activities, the business-type activities, the discretely presented component unit, and the major business-type funds and, accordingly, has not recorded depreciation expense on those assets. The modified cash basis of accounting requires that those assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental and business-type activities, proprietary funds, and discretely presented component unit. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities, proprietary funds, and discretely presented component unit has not been determined.

### **Adverse Opinion**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental and Business-Type Activities, Proprietary Funds, and Discretely Presented Component Unit” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental and business-type activities, proprietary funds, and discretely presented component unit of the City of Rolette, as of December 31, 2016, or the changes in financial position – modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of each major fund and the aggregate remaining fund information of the City of Rolette, as of December 31, 2016, and the respective changes in financial position – modified cash basis for the year then ended in accordance with the modified cash basis of accounting.

### **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 opinions are not modified with respect to this matter.

## INDEPENDENT AUDITOR'S REPORT

### **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 Rolette, North Dakota's basic financial statements. The budgetary comparison information on pages 24 through 27, which is the responsibility of management, is 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 assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019, on our consideration of the City of Rolette, 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 Rolette's internal control over financial reporting and compliance.

*Haga Kommer, Ltd*

Haga Kommer, Ltd  
Mandan, North Dakota  
November 15, 2019

CITY OF ROLETTE  
Statement of Net Position - Modified Cash Basis  
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rolette Airport Authority
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 950,229	\$ 370,673	\$ 1,320,902	\$ 6,995
Investments	<u>65,594</u>	<u>110,549</u>	<u>176,143</u>	<u>-</u>
Total Assets	1,015,823	481,222	1,497,045	6,995
<b>LIABILITIES</b>				
Long-Term Liabilities:				
Due Within One Year:				
Revenue Bonds Payable	-	6,000	6,000	-
Due After One Year:				
Loan Payable	1,181,000	-	1,181,000	-
Revenue Bonds Payable	<u>-</u>	<u>24,500</u>	<u>24,500</u>	<u>-</u>
Total Liabilities	<u>1,181,000</u>	<u>30,500</u>	<u>1,211,500</u>	<u>-</u>
<b>NET POSITION</b>				
Restricted for:				
Special Purposes	702,412	-	702,412	-
Unrestricted	<u>(867,589)</u>	<u>450,722</u>	<u>(416,867)</u>	<u>6,995</u>
Total Net Position	<u>\$ (165,177)</u>	<u>\$ 450,722</u>	<u>\$ 285,545</u>	<u>\$ 6,995</u>

CITY OF ROLETTE  
Statement of Activities - Modified Cash Basis  
For the year ended December 31, 2016

Functions/Programs	Net (Expense) Revenue & Changes in Net Position						
	Program Revenues				Primary Government		Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Governments</b>							
<u>Governmental Activities</u>							
General Government	\$ 113,957	\$ 10,781	\$ -	\$ -	\$ (103,176)		\$ (103,176)
Public Safety	58,511	-	-	-	(58,511)		(58,511)
Public Works	78,382	-	196,097	-	117,715		117,715
Health and Welfare	20,759	35,747	-	-	14,988		14,988
Culture and Recreation	57,565	-	-	-	(57,565)		(57,565)
Economic Development	2,746	-	-	-	(2,746)		(2,746)
Other	3,682	-	-	-	(3,682)		(3,682)
Street Project	741,022				(741,022)		
Interest & Service Charges	11,995	-	-	-	(11,995)		(11,995)
Total Governmental Activities	<u>1,088,619</u>	<u>46,528</u>	<u>196,097</u>	<u>-</u>	<u>(845,994)</u>		<u>(845,994)</u>
<u>Business-type Activities</u>							
Water	48,451	51,306	-	-		\$ 2,855	2,855
Sewer	12,509	29,927	-	-		17,418	17,418
Garbage	92,460	113,745	-	-		21,285	21,285
Total Business-type Activities	<u>153,420</u>	<u>194,978</u>	<u>-</u>	<u>-</u>		<u>41,558</u>	<u>41,558</u>
Total Primary Government	<u>\$ 1,242,039</u>	<u>\$ 241,506</u>	<u>\$ 196,097</u>	<u>\$ -</u>	<u>(845,994)</u>	<u>41,558</u>	<u>(804,436)</u>
<u>Component Unit:</u>							
Rolette Airport Authority	<u>\$ 10,500</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ (10,500)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes, Levied for General Purpose				70,809	-	70,809	8,500
Property Taxes, Levied for Debt Services				-	-	-	-
Property Taxes, Levied for Special Purposes				9,233	-	9,233	-
Non restricted grants and contributions				-	-	-	-
Earning on Investments				1,313	227	1,540	9
Miscellaneous Revenue				273,264	9,367	282,631	-
Grant and Loan Proceeds				-	-	-	-
Transfers In (Out)				(46,428)	46,428	-	-
Total General Revenues				<u>308,191</u>	<u>56,022</u>	<u>364,213</u>	<u>8,509</u>
Change in Net Position				(537,803)	97,580	(440,223)	(1,991)
Net Position - Beginning of Year				<u>372,626</u>	<u>353,142</u>	<u>725,768</u>	<u>8,986</u>
Net Position - End of Year				<u>\$ (165,177)</u>	<u>\$ 450,722</u>	<u>\$ 285,545</u>	<u>\$ 6,995</u>



CITY OF ROLETTE  
 Balance Sheet - Modified Cash Basis - Governmental Funds  
 December 31, 2016

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Hayhurst Manor	City Sales Tax	SID #2015-2		
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 158,830	\$ 122,630	\$ 193,641	\$ 442,753	\$ 32,375	\$ 950,229
Investments	10,000	-	-	-	55,594	65,594
Due from Other Funds	32,617	-	-	-	-	32,617
<b>TOTAL ASSETS</b>	<u>\$ 201,447</u>	<u>\$ 122,630</u>	<u>\$ 193,641</u>	<u>\$ 442,753</u>	<u>\$ 87,969</u>	<u>\$ 1,048,440</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 32,617	\$ 32,617
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,617</u>	<u>32,617</u>
Fund Balances:						
Restricted	-	-	193,641	442,753	66,018	702,412
Assigned	-	122,630	-	-	21,951	144,581
Unassigned	201,447	-	-	-	(32,617)	168,830
<b>Total Fund Balances</b>	<u>201,447</u>	<u>122,630</u>	<u>193,641</u>	<u>442,753</u>	<u>55,352</u>	<u>1,015,823</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 201,447</u>	<u>\$ 122,630</u>	<u>\$ 193,641</u>	<u>\$ 442,753</u>	<u>\$ 87,969</u>	<u>\$ 1,048,440</u>

CITY OF ROLETTE  
Reconciliation of Governmental Funds Balance Sheet  
To the Statement of Net Position - Modified Cash Basis  
For the year ended December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 1,015,823

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. The balance at December 31, 2016 for long-term liabilities was:

(1,181,000)

Total Net Position of Governmental Activities

\$ (165,177)

CITY OF ROLETTE  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis - Governmental Funds  
For the year ended December 31, 2016

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Hayhurst Manor	City Sales Tax	SID #2015-2		
	REVENUES					
Taxes	\$ 70,809	\$ -	\$ -	\$ -	\$ 9,233	\$ 80,042
Licenses, Permits, and Fees	9,886	-	-	-	-	9,886
Intergovernmental	114,349	-	81,748	-	-	196,097
Charges for Services	-	35,747	-	-	-	35,747
Fines and Forfeits	895	-	-	-	-	895
Interest Income	1,149	-	-	14	150	1,313
Miscellaneous	194,258	-	39,520	-	39,486	273,264
Grant and Loan Proceeds	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>391,346</b>	<b>35,747</b>	<b>121,268</b>	<b>14</b>	<b>48,869</b>	<b>597,244</b>
EXPENDITURES						
Current:						
General Government	107,514	-	-	-	6,443	113,957
Public Safety	57,740	-	-	-	771	58,511
Public Works	53,382	-	25,000	-	-	78,382
Health and Welfare	846	19,913	-	-	-	20,759
Culture and Recreation	-	-	57,565	-	-	57,565
Economic Development	-	-	-	-	2,746	2,746
Street Project	-	-	-	741,022	-	741,022
Other	1,348	-	-	-	2,334	3,682
Debt Service:						
Principal	4,382	-	-	-	-	4,382
Interest & Service Charges	185	-	-	-	-	185
<b>TOTAL EXPENDITURES</b>	<b>225,397</b>	<b>19,913</b>	<b>82,565</b>	<b>741,022</b>	<b>12,294</b>	<b>1,081,191</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	165,949	15,834	38,703	(741,008)	36,575	(483,947)
OTHER FINANCING SOURCES (USES)						
Loan Proceeds	-	-	-	1,181,000	-	1,181,000
Loan Origination Fees	-	-	-	(11,810)	-	(11,810)
Transfers In (Out)	(52,326)	-	-	14,571	(8,673)	(46,428)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(52,326)</b>	<b>-</b>	<b>-</b>	<b>1,183,761</b>	<b>(8,673)</b>	<b>1,122,762</b>
NET CHANGE IN FUND BALANCES	113,623	15,834	38,703	442,753	27,902	638,815
Fund Balances - January 1, 2016	87,824	106,796	154,938	-	27,450	377,008
FUND BALANCES - DECEMBER 31, 2016	<u>\$201,447</u>	<u>\$ 122,630</u>	<u>\$ 193,641</u>	<u>\$ 442,753</u>	<u>\$ 55,352</u>	<u>\$ 1,015,823</u>

CITY OF ROLETTE

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 *Fund Balances* - Total Governmental funds \$ 638,815

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

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.

Debt Proceeds	(1,181,000)	
Repayment of Debt	<u>4,382</u>	<u>(1,176,618)</u>
 Change in net position of governmental activities		 <u>\$ (537,803)</u>

CITY OF ROLETTE  
Statement of Net Position - Modified Cash Basis - Proprietary Funds  
December 31, 2016

	Business-type Activities - Enterprise Funds			
	Major Enterprise Funds			Totals
	Water	Sewer	Garbage	
<b>ASSETS</b>				
Current Assets				
Cash and Cash Equivalents	\$ 128,436	\$ 92,634	\$ 149,603	\$ 370,673
Investments	96,203	-	14,346	110,549
<b>TOTAL ASSETS</b>	<b>224,639</b>	<b>92,634</b>	<b>163,949</b>	<b>481,222</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Revenue Bonds Payable	-	6,000	-	6,000
Non-Current Liabilities:				
Revenue Bonds Payable	-	24,500	-	24,500
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>30,500</b>	<b>-</b>	<b>30,500</b>
<b>NET POSITION</b>				
Unrestricted	224,639	62,134	163,949	450,722
<b>TOTAL NET POSITION</b>	<b>\$ 224,639</b>	<b>\$ 62,134</b>	<b>\$ 163,949</b>	<b>\$ 450,722</b>

CITY OF ROLETTE  
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			
	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
OPERATING REVENUES:				
Charges for Services	\$ 51,306	\$ 29,927	\$ 113,745	\$ 194,978
OPERATING EXPENSES:				
Salaries & Benefits	10,853	16,282	-	27,135
Utilities	3,296	1,727	-	5,023
Repairs & Maintenance	34,302	(6,566)	-	27,736
Garbage Contract	-	-	92,460	92,460
TOTAL OPERATING EXPENSES	<u>48,451</u>	<u>11,443</u>	<u>92,460</u>	<u>152,354</u>
INCOME (LOSS) FROM OPERATIONS	2,855	18,484	21,285	42,624
NON-OPERATING REVENUES (EXPENSES):				
County Taxes and Specials	3,308	3,235	2,824	9,367
Interest Income	166	-	61	227
Debt Service:				
Interest	-	(900)	-	(900)
Bank Service Charges	-	(166)	-	(166)
TOTAL NON-OPERATING REVENUES (EXPENSES):	<u>3,474</u>	<u>2,169</u>	<u>2,885</u>	<u>8,528</u>
NET INCOME (LOSS) BEFORE TRANSFERS	6,329	20,653	24,170	51,152
Transfers In (Out)	<u>53,714</u>	<u>(7,286)</u>	<u>-</u>	<u>46,428</u>
CHANGE IN NET POSITION	60,043	13,367	24,170	97,580
Net Position - January 1, 2016	<u>164,596</u>	<u>48,767</u>	<u>139,779</u>	<u>353,142</u>
NET POSITION - DECEMBER 31, 2016	<u>\$ 224,639</u>	<u>\$ 62,134</u>	<u>\$ 163,949</u>	<u>\$ 450,722</u>

CITY OF ROLETTE  
Statement of Cash Flows  
Modified Cash Basis - Proprietary Funds  
For the year ended December 31, 2016

	Business-type Activities - Enterprise Funds			
	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 51,306	\$ 29,927	\$ 113,745	\$ 194,978
Payments to Suppliers	(37,598)	4,839	(92,460)	(125,219)
Payments to Employees	(10,853)	(16,282)	-	(27,135)
Net Cash Provided (Used) by Operating Activities	2,855	18,484	21,285	42,624
<u>Cash Flows from Noncapital Financing Activities:</u>				
Receipts from Taxes and Specials	3,308	3,235	2,823	9,366
Transfers (in) out	53,714	(7,286)	-	46,428
Net Cash Provided (Used) by Noncapital Financing Activities	57,022	(4,051)	2,823	55,794
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Long-Term Debt	-	(5,500)	-	(5,500)
Interest Paid	-	(900)	-	(900)
Bank Service Charges Paid	-	(166)	-	(166)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(6,566)	-	(6,566)
<u>Cash Flows from Investing Activities:</u>				
Certificates of Deposit Purchased	(61,612)	-	-	(61,612)
Net Cash Provided (Used) by Investing Activities	(61,612)	-	-	(61,612)
Net Increase in Cash and Cash Equivalents	(1,735)	7,867	24,108	30,240
Cash and Cash Equivalents, January 1, 2016	130,171	84,767	125,495	340,433
Cash and Cash Equivalents, December 31, 2016	<u>\$ 128,436</u>	<u>\$ 92,634</u>	<u>\$ 149,603</u>	<u>\$ 370,673</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ 2,855	\$ 18,484	\$ 21,285	\$ 42,624
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,855</u>	<u>\$ 18,484</u>	<u>\$ 21,285</u>	<u>\$ 42,624</u>

CITY OF ROLETTE  
Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Fiduciary Funds  
December 31, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and Investments	<u>\$ 9,075</u>
Total Assets	<u>\$ 9,075</u>
LIABILITIES	
Due to Other Parties	<u>\$ 9,075</u>
Total Liabilities	<u>\$ 9,075</u>



CITY OF ROLETTE  
Rolette, North Dakota  
Notes to the Financial Statements  
December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Rolette, 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, 2003. 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, the component unit discussed below is included within the City's reporting entity because of the significance of its operational or financial relationship with the City.

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

The Rolette 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.

The financial statements of the Airport Authority are reported as a discretely presented component unit in the basic financial statements. Complete financial statements of the component unit can be obtained directly from the administrative office of the City.

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.

CITY OF ROLETTE  
Rolette, North Dakota  
Notes to the Financial Statements  
December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, proprietary, and fiduciary 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.

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.

*Hayhurst Manor Fund:* This fund accounts for the operations of Hayhurst Manor.

*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.

*SID 2015-2:* This capital projects fund accounts for the activity of the 2015 street improvement project within the City of Rolette.

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 in the City of Rolette.

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

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

CITY OF ROLETTE  
Rolette, North Dakota  
Notes to the Financial Statements  
December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Additionally, the City reports the following fund types:

*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/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 below under Basis of Accounting.

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 government 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.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, fiduciary fund, and component unit 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, 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.

CITY OF ROLETTE  
Rolette, North Dakota  
Notes to the Financial Statements  
December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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.

As of December 31, 2016, the City's carrying balances (excluding the component unit and agency funds) were \$1,497,045. The bank balance of these deposits as of December 31, 2016 was \$1,781,735. Of the bank balances, \$250,000 was covered by Federal Depository Insurance; \$800,000 was collateralized with securities held by the pledging financial institutions' agent not in the City's name; and \$731,735 was unsecured. During the fiscal year ended December 31, 2016, the board reviewed the pledge of securities semi-annually as required by state law.

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.

CITY OF ROLETTE  
Rolette, North Dakota  
Notes to the Financial Statements  
December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. 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.

F. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

G. 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.

H. Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when external creditors, grantors, or other governmental organization's imposed specific restrictions on the City. External restrictions may be imposed through state or local laws, and grant or contract provisions. Restricted net position includes amounts restricted for debt service.

I. 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.

CITY OF ROLETTE  
 Rolette, North Dakota  
 Notes to the Financial Statements  
 December 31, 2016

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

*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.

NOTE 2      CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposit, savings accounts and highly liquid investments with a maturity of three months or less.

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.55 to 2.00 percent in 2016.

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.

NOTE 4      LONG-TERM DEBT

<b>Governmental Activities:</b>	Balance 1/1/2016	Additions	Retirements	Balance 12/31/2016	Due Within One Year
Loans Payable	\$ -	\$ 1,181,000	\$ -	\$ 1,181,000	\$ -

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

\$1,181,000 Street Improvement Loan, due in annual installments of \$58,330 through June 12, 2047; interest at 2.75%	<u>\$ 1,181,000</u>
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CITY OF ROLETTE  
 Rolette, North Dakota  
 Notes to the Financial Statements  
 December 31, 2016

NOTE 4 LONG-TERM DEBT – CONTINUED

<b>Business-type Activities:</b>	Balance			Balance 12/31/2016	Due Within One Year
	1/1/2016	Additions	Retirements		
Revenue Bonds	<u>\$ 36,000</u>	<u>\$ -</u>	<u>\$ 5,500</u>	<u>\$ 30,500</u>	<u>\$ 6,000</u>

Outstanding debt for business-type activities at December 31, 2016 consists of the following issue:

\$102,000 Waste Water Improvement Bonds of 2002, due in annual installments of \$4,000 to \$6,500 through September 1, 2021; interest at 2.5% \$ 30,500

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

Year Ending December 31	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ -	\$ -	\$ -	\$ 6,000	\$ 762	\$ 6,762
2018	25,852	32,478	58,330	6,000	613	6,613
2019	26,563	31,767	58,330	6,000	462	6,462
2020	27,294	31,036	58,330	6,000	312	6,312
2021	28,045	30,285	58,330	6,500	162	6,662
2022-2026	152,224	139,426	291,650	-	-	-
2027-2031	174,338	117,312	291,650	-	-	-
2032-2036	199,665	91,985	291,650	-	-	-
2037-2041	228,671	62,979	291,650	-	-	-
2042-2046	261,891	29,759	291,650	-	-	-
2047	56,457	1,553	58,010	-	-	-
<b>TOTAL</b>	<u>\$ 1,181,000</u>	<u>\$ 568,580</u>	<u>\$ 1,749,580</u>	<u>\$ 30,500</u>	<u>\$ 2,311</u>	<u>\$ 32,811</u>

NOTE 5 RISK MANAGEMENT

The City of Rolette 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. The following are funds/pools established by the State for risk management issues.

The 1995 legislative session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state and its agencies' employees and the university system. All state agencies participate in the RMF and their fund contribution is determined using a projected cost allocation approach. The statutory liability of the state is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The City of Rolette participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

CITY OF ROLETTE  
 Rolette, North Dakota  
 Notes to the Financial Statements  
 December 31, 2016

NOTE 5      RISK MANAGEMENT – CONTINUED

The State Bonding Fund currently provides the City of Rolette with blanket fidelity bond coverage for its employees up to \$150,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 6      LEGAL COMPLIANCE

The governing board amended the budget during the year ended December 31, 2016.

For the year ended December 31, 2016, the General Fund expended certain line items over budget, but overall the General Fund total expenditures were less than budgeted. The General Fund did not budget for the principal and interest paid on their long term debt. Sales Tax expenditures were over budget. No remedial action is anticipated or required by the City regarding these excess expenditures.

NOTE 7      INTERFUND RECEIVABLES/PAYABLES

At December 31, 2016, interfund receivables and payables totaled \$32,617 because of the negative cash in the pooled accounts. Below is a summary of the interfund receivables and payables that are expected to be repaid within one year.

Fund	Receivable Amount	Payable Amount
General Fund	\$ 32,617	\$ -
City Housing Fund	-	32,617
Total	\$ 32,617	\$ 32,617

NOTE 8      INTERFUND TRANSFERS

At December 31, 2016, fund transfers consisted of the following:

Fund	Transfer In	Transfer Out
General		\$ 61,000
Water	\$ 61,000	
<i>Transfer funds that were deposited into the general fund to purchase CD in the water fund</i>		
General	8,673	
Social Security		8,673
<i>Transfer funds to general to cover tax withholding expenses</i>		
Water		7,286
Sewer		7,286
SID #2015-2	14,572	
<i>Transfer funds to project to cover street project expenses</i>		
	\$ 84,245	\$ 84,245



CITY OF ROLETTE  
 Rolette, North Dakota  
 Notes to the Financial Statements  
 December 31, 2016

NOTE 9      DEFICIT FUND BALANCES

At December 31, 2016, the City Housing Fund had a deficit fund balance of \$32,617.

NOTE 10      FUND BALANCES

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	General Fund	Hayhurst Manor	City Sales Tax	SID #2015-2	Other Governmental Funds	Total
Committed						
Street Projects	\$ -	\$ -	-	\$ 442,753	\$ 23,303	\$ 466,056
City Sales Tax	-	-	193,641	-	-	193,641
Library	-	-	-	-	9,286	9,286
Job Authority	-	-	-	-	6,338	6,338
Fire Levy	-	-	-	-	27,091	27,091
Assigned						
Hayhurst Manor	-	122,630	-	-	-	122,630
Scholarship	-	-	-	-	9,428	9,428
Cemetery	-	-	-	-	41	41
Airport Special Revenue	-	-	-	-	11,676	11,676
Construction	-	-	-	-	806	806
Unassigned	201,447	-	-	-	(32,617)	168,830
	<u>\$ 201,447</u>	<u>\$ 122,630</u>	<u>\$ 193,641</u>	<u>\$ 442,753</u>	<u>\$ 55,352</u>	<u>\$ 1,015,823</u>

NOTE 11      SUBSEQUENT EVENTS

There are approximately \$1.37 million remaining in construction costs before completion of the Street Improvement project. The loan and grant agreement closed in June 2017 with the first loan payment to be due in June 2018.

***SUPPLEMENTARY INFORMATION***

CITY OF ROLETTE  
 Budgetary Comparison Schedule - Modified Cash Basis  
 General Fund  
 For the year ended December 31, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes	\$ 81,000	\$ 81,000	\$ 70,809	\$ (10,191)
Licenses, Permits, and Fees	7,650	7,650	9,886	2,236
Intergovernmental	148,440	148,440	114,349	(34,091)
Fines and Forfeits	2,000	2,000	895	(1,105)
Interest Income	1,100	1,100	1,149	49
Miscellaneous	<u>13,000</u>	<u>13,000</u>	<u>194,258</u>	<u>181,258</u>
<b>TOTAL REVENUES</b>	<b>253,190</b>	<b>253,190</b>	<b>391,346</b>	<b>138,156</b>
<b>EXPENDITURES</b>				
Current:				
General Government	135,100	78,492	107,514	(29,022)
Public Safety	66,000	62,740	57,740	5,000
Public Works	127,500	67,862	53,382	14,480
Health and Welfare	1,500	846	846	-
Other	20,000	20,000	1,348	18,652
Debt Service:				
Principal	-	-	4,382	(4,382)
Interest & Service Charges	<u>-</u>	<u>-</u>	<u>185</u>	<u>(185)</u>
<b>TOTAL EXPENDITURES</b>	<b><u>350,100</u></b>	<b><u>229,940</u></b>	<b><u>225,397</u></b>	<b><u>4,543</u></b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(96,910)	23,250	165,949	142,699
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(52,326)</u>	<u>(52,326)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(96,910)</b>	<b>23,250</b>	<b>113,623</b>	<b>90,373</b>
Fund Balances - January 1, 2016	<u>87,824</u>	<u>87,824</u>	<u>87,824</u>	<u>-</u>
<b>FUND BALANCES - DECEMBER 31, 2016</b>	<b><u>\$ (9,086)</u></b>	<b><u>\$ 111,074</u></b>	<b><u>\$ 201,447</u></b>	<b><u>\$ 90,373</u></b>

CITY OF ROLETTE  
 Budgetary Comparison Schedule - Modified Cash Basis  
 Hayhurst Manor Fund  
 For the year ended December 31, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for Services	\$ 37,250	\$ 37,250	\$ 35,747	\$ (1,503)
TOTAL REVENUES	37,250	37,250	35,747	(1,503)
EXPENDITURES				
Current:				
Health and Welfare	<u>35,000</u>	<u>35,000</u>	<u>19,913</u>	<u>15,087</u>
TOTAL EXPENDITURES	<u>35,000</u>	<u>35,000</u>	<u>19,913</u>	<u>15,087</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,250	2,250	15,834	13,584
Fund Balances - January 1, 2016	<u>106,796</u>	<u>106,796</u>	<u>106,796</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2016	<u>\$ 109,046</u>	<u>\$ 109,046</u>	<u>\$ 122,630</u>	<u>\$ 13,584</u>

CITY OF ROLETTE  
 Budgetary Comparison Schedule - Modified Cash Basis  
 City Sales Tax Fund  
 For the year ended December 31, 2016

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 87,000	\$ 87,000	\$ 81,748	\$ (5,252)
Miscellaneous	<u>-</u>	<u>-</u>	<u>39,520</u>	<u>39,520</u>
TOTAL REVENUES	87,000	87,000	121,268	34,268
EXPENDITURES				
Current:				
Public Works	25,000	25,000	25,000	-
Culture and Recreation	<u>25,000</u>	<u>25,000</u>	<u>57,565</u>	<u>(32,565)</u>
TOTAL EXPENDITURES	<u>50,000</u>	<u>50,000</u>	<u>82,565</u>	<u>(32,565)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	37,000	37,000	38,703	1,703
Fund Balances - January 1, 2016	<u>154,938</u>	<u>154,938</u>	<u>154,938</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2016	<u>\$ 191,938</u>	<u>\$ 191,938</u>	<u>\$ 193,641</u>	<u>\$ 1,703</u>

City of Rolette  
Notes to Supplementary Information  
December 31, 2016

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. The budget is presented for the general fund and the major special revenue funds. The city council 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:

- The City Auditor prepares a preliminary budget for the general, special revenue, and debt service funds on the modified cash basis of accounting. The preliminary budget includes proposed expenditures and the means of financing them.
- The governing body reviews the preliminary budget, may make revisions and approves it on or before September 10.
- On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget.
- The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10.
- Except as provided by state law, no municipal expenditures shall be made nor liability incurred, and no bill shall be paid for any purpose in excess of the appropriation made in the final budget (as may be amended). Expenditures made, liabilities incurred, or warrants issued in excess of the appropriations shall be a joint and several liability of the members of the governing body who authorized the making, incurring, or issuing of the obligations or were present when they were authorized and did not vote against the authorization.
- The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing taxes levied can be made after October 10.
- 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.

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*

Governing Board  
City of Rolette  
Rolette, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rolette, 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 Rolette's basic financial statements and have issued our report thereon dated November 15, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Rolette'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 Rolette's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rolette'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 2016-001 through 2016-004 described in the accompanying schedule of findings and responses to be material weaknesses.

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*

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Rolette's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-005.

**City of Rolette, North Dakota's Response to Findings**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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  
November 15, 2019



CITY OF ROLETTE  
Schedule of Findings  
For the Year Ended December 31, 2016

**Current Year Findings:**

**Finding 2016-001: Segregation of Duties**

Condition – The city has lack of segregation of duties due to the auditor being responsible for the majority of accounting functions.

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

Cause – There are limited individuals to perform tasks due to the small size of the entity and it is not economically feasible to further segregate duties.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material to the financial statements in a timely matter by employees in the normal course of performing their assigned functions.

Recommendation – This is not unusual in entities of this 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 entity's operations.

Management's Response – The Rolette City Council and Staff are aware of the restrictions of the staff and the limit to segregation of duties. At this time it is not practicable to employ more staff to eliminate the issue.

**Finding 2016-002: Capital Asset Records**

Condition – The City of Rolette does not maintain complete capital asset records.

Criteria – The Governmental Accounting Standards Board requires that the financial statements include the capital assets and the related depreciation.

Cause – The City of Rolette has no system in place to maintain capital assets records and the related depreciation.

Effect – The omission of the capital assets from the financial statements results in an incomplete presentation of the City of Rolette's financial statements and an adverse opinion on the governmental activities, business-type activities, and the major business type funds.

Recommendation – We recommend the City of Rolette establish complete capital asset records and determine the accumulated depreciation.

Management's Response – The City is aware of this issue and will work to establish complete capital asset records for the fiscal year 2017 audit. A Capital asset policy was adopted in late 2015.

CITY OF ROLETTE  
Schedule of Findings  
For the Year Ended December 31, 2016

**Finding 2016-003: Preparation of Financial Statements**

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

Criteria – Management is responsible for the preparation and fair presentation of the financial statements in conformity with generally accepted accounting principles.

Cause – Limited time and resources of the City to prepare the financial statements in the format required by generally accepted accounting principles.

Effect – An increased risk of material misstatement in the City’s financial statements.

Recommendation – This is not unusual in organizations of your size due to limited resources. The Council should review the audited financial statements for accuracy and accept responsibility for the preparation and fair presentation of the *Governmental Accounting Standards Board* financial statements even if the auditor assisted in drafting the financial statements and notes.

Management’s Response – The Council is aware that someone needs to review the audit report each year to make sure the financial statements and note disclosures are a fair presentation for the Council.

**Finding 2016-004: 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 generally accepted accounting policies.

Cause – The classification of transactions are not properly monitored.

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

Recommendation – All general ledger accounts should be reviewed monthly by the Council for adequacy and accuracy of classification of transactions.

Management’s Response – The City will add additional columns to its ledger to present more detailed information so most journal entries can be eliminated.

CITY OF ROLETTE  
Schedule of Findings  
For the Year Ended December 31, 2016

**Finding 2016-005: Deposits**

Condition – The City is not in compliance with state law requirements for cash deposits.

Criteria – North Dakota laws require all public deposits to be protected by insurance, surety bond or collateral.

Cause – The City has excess deposits at Rolette State Bank not protected by insurance, surety bond or collateral due to an increase in loan money received.

Effect – The excess funds are not in compliance. \$731,735 was not covered by insurance or collateral.

Recommendation – Management should ensure all deposits are protected by insurance, surety bond or collateral.

Management Response – We are aware of the condition and will ensure that we comply going forward.