



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

City of Lincoln

Lincoln, North Dakota

Audit Report for the Years Ended December 31, 2017 and 2016

Client Code: PS8140



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Office of the
State Auditor

CITY OF LINCOLN

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For the Years Ended December 31, 2017 and 2016

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CITY OF LINCOLN

City Officials

December 31, 2017 and 2016

CITY OFFICIALS

As of December 31, 2017

| | |
|-----------------|--------------|
| Erv Fischer | President |
| Tom Volk | Commissioner |
| Karen Daly | Commissioner |
| Toni Zainhofsky | Commissioner |
| Gerard Wise | Mayor |
| Shawn Surface | City Auditor |

As of December 31, 2016

| | |
|----------------|--------------|
| Karen Daly | President |
| Tom Volk | Commissioner |
| Erv Fischer | Commissioner |
| Johnathan Aman | Commissioner |
| Gerard Wise | Mayor |
| Shawn Surface | City Auditor |

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Lincoln
Lincoln, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Lincoln, North Dakota, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

| Opinion Unit | 2017- 2016 |
|--------------------------------------|------------|
| Governmental Activities | Unmodified |
| Business-Type Activities | Qualified |
| Major Funds | |
| General Fund | Unmodified |
| Special Revenue Fund | Unmodified |
| Debt Service Fund | Unmodified |
| Water Fund | Qualified |
| Sewer Fund | Qualified |
| Garbage Fund | Qualified |
| Aggregate Remaining Fund Information | Qualified |

Basis for Qualified Opinion on Business-Type Activities, Water Fund, Sewer Fund, Garbage Fund, and Aggregate Remaining Fund Information

The City of Lincoln did not maintain supporting documentation related to the city water, sewer, garbage, and non-major enterprise billings and collections. Due to the lack of supporting documentation, verification of the revenues included in the financial statements was not able to be performed. Collections during the audit period totaled \$2,725,278.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion on Business-Type Activities, Water Fund, Sewer Fund, Garbage Fund, and Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities, Water Fund, Sewer Fund, Garbage Fund, and aggregate remaining fund information of the City of Lincoln for the years ended December 31, 2017 and 2016, and the respective changes in financial position thereof, for the years then ended in conformity with the modified cash basis of accounting described in Note 1.

Unmodified Opinion

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Special Revenue Fund, and Debt Service Fund of the City of Lincoln for the years ended December 31, 2017, and 2016, and the respective changes in financial position thereof, for the years then ended in conformity with the modified cash basis of accounting described in Note 1.

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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lincoln's basic financial statements. The *budgetary comparison schedules and notes to the supplementary information* are presented for purposes of additional analysis and are not a required part of the financial statements.

The *budgetary comparison schedules and notes to the supplementary information* 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 *budgetary comparison schedules and notes to the supplementary information* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a November 21, 2023 on our consideration of the City of Lincoln's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Lincoln's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Lincoln's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
November 21, 2023

CITY OF LINCOLN

Statement of Net Position – Modified Cash Basis
December 31, 2017

| | Primary Government | | |
|----------------------------------|----------------------------|-----------------------------|--------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and Investments | \$ 2,293,065 | \$ 2,316,743 | \$ 4,609,809 |
| Capital Assets, Net | 2,445,585 | 370,555 | 2,816,140 |
| Total Assets | \$ 4,738,650 | \$ 2,687,298 | \$ 7,425,949 |
| LIABILITIES | | | |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long-Term Debt | \$ 10,000 | \$ 15,000 | \$ 25,000 |
| Due After One Year | | | |
| Long-Term Debt | 125,000 | 119,000 | 244,000 |
| Total Liabilities | \$ 135,000 | \$ 134,000 | \$ 269,000 |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 2,310,584 | \$ 236,555 | \$ 2,547,139 |
| Restricted | | | |
| Debt Service | 533,023 | - | 533,023 |
| General Government | 68,664 | - | 68,664 |
| Public Safety | 43,615 | - | 43,615 |
| Public Works | 1,025,776 | - | 1,025,776 |
| Emergencies | 90,000 | - | 90,000 |
| Culture and Recreation | 35,770 | - | 35,770 |
| Unrestricted | 496,218 | 2,316,743 | 2,812,961 |
| Total Net Position | \$ 4,603,650 | \$ 2,553,298 | \$ 7,156,949 |

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

CITY OF LINCOLN

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2017

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|------------------|---|--|--|--|---------------------------------|--------------|
| | | | | | Primary Government | | |
| Functions/Programs | Expenses | Fees, Fines, and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 484,889 | \$ 114,685 | \$ - | \$ - | \$ (370,204) | | \$ (370,204) |
| Public Safety | 446,932 | - | - | - | (446,932) | | (446,932) |
| Public Works | 299,754 | - | 150,491 | 136,833 | (12,431) | | (12,431) |
| Culture and Recreation | 5,952 | - | 3,184 | - | (2,768) | | (2,768) |
| Interest & Fees on Long-Term Debt | 8,828 | - | - | - | (8,828) | | (8,828) |
| Total Governmental Activities | \$ 1,246,356 | \$ 114,685 | \$ 153,675 | \$ 136,833 | \$ (841,163) | | \$ (841,163) |
| Business-Type Activities | | | | | | | |
| Water | \$ 671,996 | \$ 868,573 | \$ - | \$ - | | \$ 196,577 | \$ 196,577 |
| Sewer | 260,305 | 290,025 | - | - | | 29,720 | 29,720 |
| Garbage | 238,650 | 254,039 | - | - | | 15,389 | 15,389 |
| Non Major | 37,368 | 34,116 | - | - | | (3,252) | (3,252) |
| Total Business-Type Activities | \$ 1,208,319 | \$ 1,446,752 | \$ - | \$ - | \$ - | \$ 238,433 | \$ 241,685 |
| Total Primary Government | \$ 2,454,675 | \$ 1,561,438 | \$ 153,675 | \$ 136,833 | \$ (841,163) | \$ 238,433 | \$ (599,477) |
| GENERAL REVENUES | | | | | | | |
| Property Taxes | | | | | \$ 728,854 | \$ - | \$ 728,854 |
| Non-Restricted Grants and Contributions | | | | | 241,633 | - | 241,633 |
| Unrestricted Investment Earnings | | | | | 7,984 | 22 | 8,006 |
| Miscellaneous | | | | | - | 1,372 | 1,372 |
| Net Cash Transfers | | | | | 20,000 | (20,000) | - |
| Total General Revenues and Transfers | | | | | \$ 998,470 | \$ (18,605) | \$ 979,865 |
| Changes in Net Position | | | | | \$ 157,308 | \$ 219,828 | \$ 377,136 |
| Net Position - January 1 | | | | | \$ 4,446,342 | \$ 2,333,471 | \$ 6,779,813 |
| Net Position - December 31 | | | | | \$ 4,603,650 | \$ 2,553,299 | \$ 7,156,949 |

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

CITY OF LINCOLN

Balance Sheet – Governmental Funds – Modified Cash Basis

December 31, 2017

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|--|-------------------|----------------------------|-------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Investments | \$ 491,831 | \$ 1,263,826 | \$ 537,409 | \$ 2,293,065 |
| Due from Other Funds | 4,386 | - | - | 4,386 |
| Total Assets | <u>\$ 496,217</u> | <u>\$ 1,263,826</u> | <u>\$ 537,409</u> | <u>\$ 2,297,451</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Due to Other Funds | \$ - | \$ - | \$ 4,386 | \$ 4,386 |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,386</u> | <u>\$ 4,386</u> |
| Fund Balances | | | | |
| Restricted | | | | |
| Debt Service | \$ - | \$ - | \$ 533,023 | \$ 533,023 |
| General Government | - | 68,664 | - | 68,664 |
| Public Safety | - | 43,615 | - | 43,615 |
| Public Works/Streets | - | 1,025,776 | - | 1,025,776 |
| Emergency | - | 90,000 | - | 90,000 |
| Culture & Recreation | - | 35,770 | - | 35,770 |
| Unassigned | | | | |
| General Fund | 496,217 | - | - | 496,217 |
| Total Fund Balances | <u>\$ 496,217</u> | <u>\$ 1,263,826</u> | <u>\$ 533,023</u> | <u>\$ 2,293,065</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 496,217</u> | <u>\$ 1,263,826</u> | <u>\$ 537,409</u> | <u>\$ 2,297,451</u> |

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

CITY OF LINCOLN

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2017

| | |
|--|---------------------|
| Total <i>Fund Balances</i> for Governmental Funds | \$ 2,293,065 |
|--|---------------------|

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

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 2,445,584 |
|---|-----------|

Long-term liabilities 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.

| | |
|----------------|---------------------|
| Long-Term Debt | <u>\$ (135,000)</u> |
|----------------|---------------------|

| | |
|--|----------------------------|
| Total Net Position of Governmental Activities | <u>\$ 4,603,649</u> |
|--|----------------------------|

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

CITY OF LINCOLN

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2017

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|--|-----------------|----------------------------|-------------------------|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 641,511 | \$ 32,869 | \$ 54,473 | \$ 728,854 |
| Special Assessment Taxes | - | - | 136,833 | 136,833 |
| Licenses, Permits and Fees | 46,437 | - | - | 46,437 |
| Charges for Services | 68,249 | - | - | 68,249 |
| Intergovernmental | 241,633 | 153,675 | - | 395,308 |
| Interest | 7,483 | 12 | 489 | 7,984 |
| Total Revenues | \$ 1,005,313 | \$ 186,556 | \$ 191,795 | \$ 1,383,663 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 436,140 | \$ 36,075 | \$ - | \$ 472,215 |
| Public Safety | 428,576 | - | - | 428,576 |
| Public Works | - | 274,754 | - | 274,754 |
| Culture and Recreation | - | 5,952 | - | 5,952 |
| Debt Service | | | | |
| Principal | - | - | 90,000 | 90,000 |
| Interest | - | - | 7,015 | 7,015 |
| Fees | - | - | 1,813 | 1,813 |
| Total Expenditures | \$ 864,716 | \$ 316,781 | \$ 98,828 | \$ 1,280,326 |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 140,597 | \$ (130,225) | \$ 92,967 | \$ 103,338 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$ 20,000 | \$ - | \$ - | \$ 20,000 |
| Net Change in Fund Balances | \$ 160,597 | \$ (130,225) | \$ 92,967 | \$ 123,338 |
| Fund Balance - January 1 | \$ 335,620 | \$ 1,394,051 | \$ 440,057 | \$ 2,169,728 |
| Fund Balance - December 31 | \$ 496,217 | \$ 1,263,826 | \$ 533,023 | \$ 2,293,065 |

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

CITY OF LINCOLN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended December 31, 2017

| | |
|--|-------------------|
| Net Change in <i>Fund Balances</i> - Total Governmental Funds | \$ 123,338 |
|--|-------------------|

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

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

| | | |
|-----------------------------------|------------------|----------|
| Current Year Capital Outlay | \$ 95,606 | |
| Current Year Depreciation Expense | <u>(151,636)</u> | (56,030) |

The proceeds of debt issuances are reported as other financing sources in governmental funds and contribute to 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.

| | | |
|-----------------------------|--|---------------|
| Repayment of Long-Term Debt | | <u>90,000</u> |
|-----------------------------|--|---------------|

| | |
|--|--------------------------|
| Change in Net Position of Governmental Activities | <u>\$ 157,308</u> |
|--|--------------------------|

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

CITY OF LINCOLN

Statement of Net Position – Proprietary Funds – Modified Cash Basis

December 31, 2017

| | Business-type Activities - Enterprise Funds | | | | |
|----------------------------------|---|--------------|--------------|-----------------|--------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Investments | \$ 1,190,475 | \$ 972,199 | \$ 134,061 | \$ 20,009 | \$ 2,316,743 |
| Total Current Assets | \$ 1,190,475 | \$ 972,199 | \$ 134,061 | \$ 20,009 | \$ 2,316,743 |
| Noncurrent Assets | | | | | |
| Capital Assets, Net | \$ 148,344 | \$ 211,904 | \$ 10,307 | \$ - | \$ 370,555 |
| Total Assets | \$ 1,338,819 | \$ 1,184,103 | \$ 144,368 | \$ 20,009 | \$ 2,687,298 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Long-Term Debt | \$ 15,000 | \$ - | \$ - | \$ - | \$ 15,000 |
| Total Current Liabilities | \$ 15,000 | \$ - | \$ - | \$ - | \$ 15,000 |
| Noncurrent Liabilities | | | | | |
| Long-Term Debt | \$ 119,000 | \$ - | \$ - | \$ - | \$ 119,000 |
| Total Liabilities | \$ 134,000 | \$ - | \$ - | \$ - | \$ 134,000 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | \$ 14,344 | \$ 211,904 | \$ 10,307 | \$ - | \$ 236,555 |
| Unrestricted | 1,190,475 | 972,199 | 134,061 | 20,009 | 2,316,743 |
| Total Net Position | \$ 1,204,819 | \$ 1,184,103 | \$ 144,368 | \$ 20,009 | \$ 2,553,298 |

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

CITY OF LINCOLN

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis For the Year Ended December 31, 2017

| | Business-type Activities - Enterprise Funds | | | | |
|--|---|---------------------|-------------------|--------------------|---------------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| OPERATING REVENUES | | | | | |
| Charges for Services | \$ 868,573 | \$ 290,025 | \$ 254,039 | \$ 34,116 | \$ 1,446,752 |
| Miscellaneous | 95 | 500 | 691 | 86 | 1,372 |
| Total Operating Revenues | <u>\$ 868,667</u> | <u>\$ 290,525</u> | <u>\$ 254,730</u> | <u>\$ 34,202</u> | <u>\$ 1,448,125</u> |
| OPERATING EXPENSES | | | | | |
| Salaries and wages | \$ 106,289 | \$ 50,742 | \$ 34,107 | \$ - | \$ 191,138 |
| Health Insurance | 15,799 | 7,335 | 4,830 | - | 27,965 |
| Retirement | - | - | - | - | - |
| Unemployment | 782 | 480 | 196 | - | 1,457 |
| Engineering Fees | 242 | 7,975 | - | - | 8,217 |
| Training/Computer Support | 50 | - | - | - | 50 |
| Utilities | 11,840 | 4,130 | - | - | 15,969 |
| Meter Parts | 35,473 | - | - | - | 35,473 |
| Supplies | 2,533 | 4,967 | - | - | 7,500 |
| Repair/Maintenance | 878 | 162,875 | - | - | 163,753 |
| Office Supplies | 1,443 | 1,442 | 2,719 | 503 | 6,106 |
| Gas, Oil, Diesel Fuel | 1,951 | 1,951 | 1,951 | - | 5,854 |
| Machinery & Equipment | 630 | - | 16,135 | - | 16,765 |
| Miscellaneous Expense | 2 | 2 | - | 124 | 128 |
| Bismarck Water | 456,223 | - | - | - | 456,223 |
| Water Testing | 5,243 | - | - | - | 5,243 |
| Garbage | - | - | 177,710 | - | 177,710 |
| Street Lighting | - | - | - | 36,741 | 36,741 |
| Depreciation | 28,185 | 18,407 | 1,002 | - | 47,594 |
| Total Operating Expenses | <u>\$ 667,563</u> | <u>\$ 260,305</u> | <u>\$ 238,650</u> | <u>\$ 37,368</u> | <u>\$ 1,203,887</u> |
| Operating Income | <u>\$ 201,104</u> | <u>\$ 30,220</u> | <u>\$ 16,080</u> | <u>\$ (3,166)</u> | <u>\$ 244,238</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Investment Earnings | \$ 22 | \$ - | \$ - | \$ - | \$ 22 |
| Interest Expense and Service Charges | (4,433) | - | - | - | (4,433) |
| Total Nonoperating Revenues (Expenses) | <u>\$ (4,410)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (4,410)</u> |
| Income (Loss) Before Contributions and Transfers | <u>\$ 196,694</u> | <u>\$ 30,220</u> | <u>\$ 16,080</u> | <u>\$ (3,166)</u> | <u>\$ 239,828</u> |
| Transfers In | \$ 34,043 | \$ - | \$ - | \$ - | \$ 34,043 |
| Transfers Out | (54,043) | - | - | - | (54,043) |
| Change in Net Position | <u>\$ 176,694</u> | <u>\$ 30,220</u> | <u>\$ 16,080</u> | <u>\$ (3,166)</u> | <u>\$ 219,828</u> |
| Net Position - January 1 | <u>\$ 1,028,125</u> | <u>\$ 1,153,883</u> | <u>\$ 128,288</u> | <u>\$ 23,175</u> | <u>\$ 2,333,471</u> |
| Net Position - December 31 | <u>\$ 1,204,819</u> | <u>\$ 1,184,103</u> | <u>\$ 144,368</u> | <u>\$ 20,009</u> | <u>\$ 2,553,299</u> |

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

CITY OF LINCOLN

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis

For the Year Ended December 31, 2017

| | Business-type Activities - Enterprise Funds | | | | |
|--|---|-------------|--------------|-----------------|--------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from Customers | \$ 868,573 | \$ 290,025 | \$ 254,039 | \$ 34,116 | \$ 1,446,752 |
| Payments to Suppliers | (516,508) | (183,342) | (198,515) | (37,368) | (935,733) |
| Payments to Employees | (122,870) | (58,556) | (39,133) | - | (220,560) |
| Other Receipts | 95 | 500 | 691 | 86 | 1,372 |
| Net Cash Provided (Used) by Operating Activities | \$ 229,289 | \$ 48,627 | \$ 17,082 | \$ (3,166) | \$ 291,832 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers In | \$ 34,043 | \$ - | \$ - | \$ - | \$ 34,043 |
| Transfers Out | (54,043) | - | - | - | (54,043) |
| Net Cash Provided (Used) by Noncapital Financing Activities | \$ (20,000) | \$ - | \$ - | \$ - | \$ (20,000) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchases and Construction of Capital Assets | \$ (50,334) | \$ (57,000) | \$ - | \$ - | \$ (107,334) |
| Principal Paid on Capital Debt | (15,000) | - | - | - | (15,000) |
| Interest and Fees Paid on Capital Debt | (4,433) | - | - | - | (4,433) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | \$ (69,767) | \$ (57,000) | \$ - | \$ - | \$ (126,767) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest Income | \$ 22 | \$ - | \$ - | \$ - | \$ 22 |
| Net Increase (Decrease) in Cash & Cash Equivalents | \$ 139,545 | \$ (8,373) | \$ 17,082 | \$ (3,166) | \$ 145,088 |
| Cash and Cash Equivalents - January 1 | \$ 1,050,930 | \$ 980,572 | \$ 116,979 | \$ 23,175 | \$ 2,171,656 |
| Cash and Cash Equivalents - December 31 | \$ 1,190,475 | \$ 972,199 | \$ 134,061 | \$ 20,009 | \$ 2,316,744 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | |
| Operating Income (Loss) | \$ 201,104 | \$ 30,220 | \$ 16,080 | \$ (3,166) | \$ 244,238 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | | | | |
| Depreciation Expense | \$ 28,185 | \$ 18,407 | \$ 1,002 | \$ - | \$ 47,594 |
| Net Cash Provided (Used) by Operating Activities | \$ 229,289 | \$ 48,627 | \$ 17,082 | \$ (3,166) | \$ 291,832 |

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

CITY OF LINCOLN

Statement of Net Position – Modified Cash Basis
December 31, 2016

| | Primary Government | | |
|----------------------------------|--------------------|---------------|--------------|
| | Governmental | Business-Type | |
| | Activities | Activities | Total |
| ASSETS | | | |
| Cash and Investments | \$ 2,169,728 | \$ 2,171,656 | \$ 4,341,383 |
| Capital Assets, Net | 2,501,614 | 310,815 | 2,812,429 |
| Total Assets | \$ 4,671,342 | \$ 2,482,471 | \$ 7,153,812 |
| LIABILITIES | | | |
| Long-Term Liabilities | | | |
| Due Within One Year | | | |
| Long-Term Debt | \$ 90,000 | \$ 15,000 | \$ 105,000 |
| Due After One Year | | | |
| Long-Term Debt | 135,000 | 134,000 | 269,000 |
| Total Liabilities | \$ 225,000 | \$ 149,000 | \$ 374,000 |
| NET POSITION | | | |
| Net Investment in Capital Assets | \$ 2,276,614 | \$ 161,815 | \$ 2,438,429 |
| Restricted | | | |
| Debt Service | 440,057 | - | 440,057 |
| General Government | 93,800 | - | 93,800 |
| Public safety | 43,603 | - | 43,603 |
| Public Works | 1,150,039 | - | 1,150,039 |
| Emergencies | 90,000 | - | 90,000 |
| Culture and Recreation | 16,609 | - | 16,609 |
| Unrestricted | 335,620 | 2,171,656 | 2,507,276 |
| Total Net Position | \$ 4,446,342 | \$ 2,333,471 | \$ 6,779,812 |

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

CITY OF LINCOLN

Statement of Activities – Modified Cash Basis

For the Year Ended December 31, 2016

| | | | | | Primary Government | | |
|---|--------------|---|--|--|----------------------------|---------------------------------|--------------|
| Functions/Programs | Expenses | Fees, Fines, and Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business- Type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental Activities | | | | | | | |
| General Government | \$ 660,111 | \$ 102,656 | \$ - | \$ - | \$ (557,455) | | \$ (557,455) |
| Public Safety | 439,644 | - | - | - | (439,644) | | (439,644) |
| Public Works | 98,653 | - | 146,357 | 139,073 | 186,777 | | 186,777 |
| Culture and Recreation | 7,857 | - | 550 | - | (7,307) | | (7,307) |
| Interest & Fees on Long-Term Debt | 10,694 | - | - | - | (10,694) | | (10,694) |
| Total Governmental Activities | \$ 1,216,958 | \$ 102,656 | \$ 146,907 | \$ 139,073 | \$ (828,323) | | \$ (828,323) |
| Business-Type Activities | | | | | | | |
| Water | \$ 571,415 | \$ 746,893 | \$ - | \$ - | | \$ 175,478 | \$ 175,478 |
| Sewer | 100,104 | 244,749 | - | - | | 144,645 | 144,645 |
| Garbage | 203,767 | 240,540 | - | - | | 36,773 | 36,773 |
| Non Major | 28,149 | 30,690 | - | - | | 2,540 | 2,540 |
| Total Business-Type Activities | \$ 903,436 | \$ 1,262,872 | \$ - | \$ - | \$ - | \$ 359,436 | \$ 356,896 |
| Total Primary Government | \$ 2,120,394 | \$ 1,365,527 | \$ 146,907 | \$ 139,073 | \$ (828,323) | \$ 359,436 | \$ (471,427) |
| GENERAL REVENUES | | | | | | | |
| Property Taxes | | | | | \$ 607,671 | \$ - | \$ 607,671 |
| Non-Restricted Grants and Contributions | | | | | 258,434 | - | 258,434 |
| Unrestricted Investment Earnings | | | | | 6,573 | 23 | 6,596 |
| Miscellaneous | | | | | 24,255 | 14,282 | 38,537 |
| Total General Revenues and Transfers | | | | | \$ 896,933 | \$ 14,305 | \$ 911,238 |
| Changes in Net Position | | | | | \$ 68,611 | \$ 373,741 | \$ 442,351 |
| Net Position - January 1 | | | | | \$ 4,006,581 | \$ 2,121,597 | \$ 6,128,178 |
| Prior Period Adjustments | | | | | \$ 371,150 | \$ (161,867) | \$ 209,283 |
| Net Position - January 1, as restated | | | | | \$ 4,377,731 | \$ 1,959,730 | \$ 6,337,461 |
| Net Position - December 31 | | | | | \$ 4,446,342 | \$ 2,333,471 | \$ 6,779,812 |

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

CITY OF LINCOLN

Balance Sheet – Governmental Funds – Modified Cash Basis
 December 31, 2016

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|--|-------------------|----------------------------|-------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and Investments | \$ 331,234 | \$ 1,394,051 | \$ 444,443 | \$ 2,169,728 |
| Due from Other Funds | 4,386 | - | - | 4,386 |
| Total Assets | <u>\$ 335,620</u> | <u>\$ 1,394,051</u> | <u>\$ 444,443</u> | <u>\$ 2,174,114</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Due to Other Funds | \$ - | \$ - | \$ 4,386 | \$ 4,386 |
| Total Liabilities | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,386</u> | <u>\$ 4,386</u> |
| Fund Balances | | | | |
| Restricted | | | | |
| Debt Service | \$ - | \$ - | \$ 440,057 | \$ 440,057 |
| General Government | - | 93,800 | - | 93,800 |
| Public Safety | - | 43,603 | - | 43,603 |
| Public Works/Streets | - | 1,150,039 | - | 1,150,039 |
| Emergency | - | 90,000 | - | 90,000 |
| Culture & Recreation | - | 16,609 | - | 16,609 |
| Unassigned | | | | |
| General Fund | 335,620 | - | - | 335,620 |
| Total Fund Balances | <u>\$ 335,620</u> | <u>\$ 1,394,051</u> | <u>\$ 440,057</u> | <u>\$ 2,169,728</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 335,620</u> | <u>\$ 1,394,051</u> | <u>\$ 444,443</u> | <u>\$ 2,174,114</u> |

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

CITY OF LINCOLN

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
December 31, 2016

| | |
|--|---------------------|
| Total <i>Fund Balances</i> for Governmental Funds | \$ 2,169,728 |
|--|---------------------|

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

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 2,501,614 |
|---|-----------|

Long-term liabilities 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.

| | |
|----------------|---------------------|
| Long-Term Debt | <u>\$ (225,000)</u> |
|----------------|---------------------|

| | |
|--|----------------------------|
| Total Net Position of Governmental Activities | <u>\$ 4,446,342</u> |
|--|----------------------------|

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

CITY OF LINCOLN

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended December 31, 2016

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|--|--------------------------|----------------------------|--------------------------|--------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 566,886 | \$ 352 | \$ 40,434 | \$ 607,671 |
| Special Assessment Taxes | - | - | 139,073 | 139,073 |
| Licenses, Permits and Fees | 51,580 | - | - | 51,580 |
| Charges for Services | 51,075 | - | - | 51,075 |
| Intergovernmental | 258,434 | 146,907 | - | 405,341 |
| Interest | 6,001 | 44 | 529 | 6,573 |
| Miscellaneous | 16,325 | 7,930 | - | 24,255 |
| Total Revenues | <u>\$ 950,301</u> | <u>\$ 155,232</u> | <u>\$ 180,035</u> | <u>\$ 1,285,568</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 636,354 | \$ 11,083 | \$ - | \$ 647,437 |
| Public Safety | 447,972 | - | - | 447,972 |
| Public Works | - | 220,303 | - | 220,303 |
| Culture and Recreation | - | 7,857 | - | 7,857 |
| Debt Service | | | | |
| Principal | - | - | 95,000 | 95,000 |
| Interest | - | - | 8,348 | 8,348 |
| Fees | - | - | 2,346 | 2,346 |
| Total Expenditures | <u>\$ 1,084,326</u> | <u>\$ 239,243</u> | <u>\$ 105,694</u> | <u>\$ 1,429,262</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ (134,025)</u> | <u>\$ (84,011)</u> | <u>\$ 74,342</u> | <u>\$ (143,694)</u> |
| Net Change in Fund Balances | <u>\$ (134,025)</u> | <u>\$ (84,011)</u> | <u>\$ 74,342</u> | <u>\$ (143,694)</u> |
| Fund Balance - January 1 | <u>\$ 269,468</u> | <u>\$ 1,699,592</u> | <u>\$ 369,242</u> | <u>\$ 2,338,302</u> |
| Prior Period Adjustment | <u>\$ 200,177</u> | <u>\$ (221,530)</u> | <u>\$ (3,527)</u> | <u>\$ (24,880)</u> |
| Fund Balance - January 1, as restated | <u>\$ 469,645</u> | <u>\$ 1,478,062</u> | <u>\$ 365,715</u> | <u>\$ 2,313,422</u> |
| Fund Balance - December 31 | <u><u>\$ 335,620</u></u> | <u><u>\$ 1,394,051</u></u> | <u><u>\$ 440,057</u></u> | <u><u>\$ 2,169,728</u></u> |

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

CITY OF LINCOLN

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
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 | \$ (143,694) |
|--|---------------------|

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

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

| | | |
|-----------------------------------|------------------|---------|
| Current Year Capital Outlay | \$ 262,867 | |
| Current Year Depreciation Expense | <u>(145,562)</u> | 117,305 |

The proceeds of debt issuances are reported as other financing sources in governmental funds and contribute to 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.

| | |
|-----------------------------|---------------|
| Repayment of Long-Term Debt | <u>95,000</u> |
|-----------------------------|---------------|

| | |
|--|-------------------------|
| Change in Net Position of Governmental Activities | <u>\$ 68,611</u> |
|--|-------------------------|

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

CITY OF LINCOLN

Statement of Net Position – Proprietary Funds – Modified Cash Basis

December 31, 2016

| | Business-type Activities - Enterprise Funds | | | | |
|----------------------------------|---|---------------|-----------------|--------------------|--------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and Investments | \$ 1,050,930 | \$ 980,572 | \$ 116,979 | \$ 23,175 | \$ 2,171,656 |
| Total Current Assets | \$ 1,050,930 | \$ 980,572 | \$ 116,979 | \$ 23,175 | \$ 2,171,656 |
| Noncurrent Assets | | | | | |
| Capital Assets, Net | \$ 126,195 | \$ 173,311 | \$ 11,309 | \$ - | \$ 310,815 |
| Total Assets | \$ 1,177,125 | \$ 1,153,883 | \$ 128,288 | \$ 23,175 | \$ 2,482,471 |
| LIABILITIES | | | | | |
| Current Liabilities | | | | | |
| Long-Term Debt | \$ 15,000 | \$ - | \$ - | \$ - | \$ 15,000 |
| Total Current Liabilities | \$ 15,000 | \$ - | \$ - | \$ - | \$ 15,000 |
| Noncurrent Liabilities | | | | | |
| Long-Term Debt | \$ 134,000 | \$ - | \$ - | \$ - | \$ 134,000 |
| Total Liabilities | \$ 149,000 | \$ - | \$ - | \$ - | \$ 149,000 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | \$ (22,805) | \$ 173,311 | \$ 11,309 | \$ - | \$ 161,815 |
| Unrestricted | 1,050,930 | 980,572 | 116,979 | 23,175 | 2,171,656 |
| Total Net Position | \$ 1,028,125 | \$ 1,153,883 | \$ 128,288 | \$ 23,175 | \$ 2,333,471 |

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

CITY OF LINCOLN

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis For the Year Ended December 31, 2016

| | Business-type Activities - Enterprise Funds | | | | |
|--|---|---------------------|-------------------|--------------------|---------------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| OPERATING REVENUES | | | | | |
| Charges for Services | \$ 746,893 | \$ 244,749 | \$ 240,540 | \$ 30,690 | \$ 1,262,872 |
| Miscellaneous | 13,282 | 1,000 | - | - | 14,282 |
| Total Operating Revenues | <u>\$ 760,175</u> | <u>\$ 245,749</u> | <u>\$ 240,540</u> | <u>\$ 30,690</u> | <u>\$ 1,277,153</u> |
| OPERATING EXPENSES | | | | | |
| Salaries and wages | \$ 62,948 | \$ 31,396 | \$ 23,547 | \$ - | \$ 117,891 |
| Health Insurance | 5,833 | 2,890 | 2,168 | - | 10,891 |
| Retirement | 5,311 | 2,648 | 1,987 | - | 9,946 |
| Unemployment | 50 | 31 | 13 | - | 94 |
| Engineering Fees | 7,121 | 5,856 | - | - | 12,978 |
| Training/Computer Support | 325 | - | - | - | 325 |
| Utilities | 8,903 | 3,521 | - | - | 12,424 |
| Meter Parts | 348 | - | - | - | 348 |
| Supplies | 14,964 | 5,801 | - | - | 20,765 |
| Repair/Maintenance | 6,092 | 19,678 | - | - | 25,769 |
| Office Supplies | 1,468 | 1,198 | 3,201 | 68 | 5,935 |
| Gas, Oil, Diesel Fuel | 1,193 | 1,193 | 1,262 | - | 3,648 |
| Machinery & Equipment | 17,120 | 15,000 | - | - | 32,120 |
| Miscellaneous Expense | 227 | 241 | - | 1,629 | 2,097 |
| Bismarck Water | 409,864 | - | - | - | 409,864 |
| Water Testing | 1,945 | - | - | - | 1,945 |
| Garbage | - | - | 170,589 | - | 170,589 |
| Street Lighting | - | - | - | 26,452 | 26,452 |
| Depreciation | 22,847 | 10,650 | 1,001 | - | 34,498 |
| Total Operating Expenses | <u>\$ 566,560</u> | <u>\$ 100,104</u> | <u>\$ 203,767</u> | <u>\$ 28,149</u> | <u>\$ 898,581</u> |
| Operating Income | <u>\$ 193,615</u> | <u>\$ 145,645</u> | <u>\$ 36,773</u> | <u>\$ 2,540</u> | <u>\$ 378,573</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Investment Earnings | \$ 23 | \$ - | \$ - | \$ - | \$ 23 |
| Interest Expense and Service Charges | (4,855) | - | - | - | (4,855) |
| Total Nonoperating Revenues (Expenses) | <u>\$ (4,832)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (4,832)</u> |
| Income (Loss) Before Contributions and Transfers | <u>\$ 188,783</u> | <u>\$ 145,645</u> | <u>\$ 36,773</u> | <u>\$ 2,540</u> | <u>\$ 373,741</u> |
| Change in Net Position | <u>\$ 188,783</u> | <u>\$ 145,645</u> | <u>\$ 36,773</u> | <u>\$ 2,540</u> | <u>\$ 373,741</u> |
| Net Position - January 1 | <u>\$ 1,011,210</u> | <u>\$ 1,018,269</u> | <u>\$ 92,118</u> | <u>\$ -</u> | <u>\$ 2,121,597</u> |
| Prior Period Adjustment | <u>\$ (171,868)</u> | <u>\$ (10,031)</u> | <u>\$ (603)</u> | <u>\$ 20,635</u> | <u>\$ (161,867)</u> |
| Net Position - January 1, As Restated | <u>\$ 839,342</u> | <u>\$ 1,008,238</u> | <u>\$ 91,515</u> | <u>\$ 20,635</u> | <u>\$ 1,959,730</u> |
| Net Position - December 31 | <u>\$ 1,028,125</u> | <u>\$ 1,153,883</u> | <u>\$ 128,288</u> | <u>\$ 23,175</u> | <u>\$ 2,333,471</u> |

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

CITY OF LINCOLN

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis

For the Year Ended December 31, 2016

| | Business-type Activities - Enterprise Funds | | | | |
|--|---|------------|--------------|-----------------|--------------|
| | Water Fund | Sewer Fund | Garbage Fund | Non Major Funds | Total |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from Customers | \$ 746,893 | \$ 244,749 | \$ 240,540 | \$ 30,690 | \$ 1,262,872 |
| Payments to Suppliers | (469,570) | (52,488) | (175,052) | (28,149) | (725,260) |
| Payments to Employees | (74,143) | (36,965) | (27,714) | - | (138,822) |
| Other Receipts | 13,282 | 1,000 | - | - | 14,282 |
| Net Cash Provided (Used) by Operating Activities | \$ 216,462 | \$ 156,295 | \$ 37,774 | \$ 2,540 | \$ 413,071 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Principal Paid on Capital Debt | \$ (14,000) | \$ - | \$ - | \$ - | \$ (14,000) |
| Interest and Fees Paid on Capital Debt | (4,855) | - | - | - | (4,855) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | \$ (18,855) | \$ - | \$ - | \$ - | \$ (18,855) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest Income | \$ 23 | \$ - | \$ - | \$ - | \$ 23 |
| Net Increase (Decrease) in Cash & Cash Equivalents | \$ 197,630 | \$ 156,295 | \$ 37,774 | \$ 2,540 | \$ 394,239 |
| Cash and Cash Equivalents - January 1 | \$ 845,089 | \$ 824,277 | \$ 79,205 | \$ - | \$ 1,748,571 |
| Prior Period Adjustment | \$ 8,211 | \$ - | \$ - | \$ 20,635 | \$ 28,846 |
| Cash and Cash Equivalents - January 1, as Restated | \$ 853,300 | \$ 824,277 | \$ 79,205 | \$ 20,635 | \$ 1,777,417 |
| Cash and Cash Equivalents - December 31 | \$ 1,050,930 | \$ 980,572 | \$ 116,979 | \$ 23,175 | \$ 2,171,656 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | | | | | |
| Operating Income (Loss) | \$ 193,615 | \$ 145,645 | \$ 36,773 | \$ 2,540 | \$ 378,573 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities | | | | | |
| Depreciation Expense | \$ 22,847 | \$ 10,650 | \$ 1,001 | \$ - | \$ 34,498 |
| Net Cash Provided (Used) by Operating Activities | \$ 216,462 | \$ 156,295 | \$ 37,774 | \$ 2,540 | \$ 413,071 |

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

CITY OF LINCOLN

Notes to the Financial Statements

For the Years Ended December 31, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Lincoln ("City") have been prepared on the modified cash basis of accounting, 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 more significant of the City's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the City. 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 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 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.

Based on these criteria, there are no component units to be included within the City as a reporting entity.

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the City. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds. Separate statements for each fund category—*governmental* and *proprietary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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 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.

Special Revenue Fund - This fund accounts for financial resources that exist for special purposes. The major sources of revenues are a restricted tax levy and state/federal grants/reimbursements.

Debt Service Fund - This fund accounts for the costs of paying off the City's bond obligations. The major sources of revenues are special assessments and property taxes.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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 Lincoln.

Sewer Fund - This fund accounts for the activities of the City's sewer collection system.

Garbage Fund - This fund accounts for the activities of the City's garbage collection system.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets with a provision for depreciation, long-term debt, and grants received in advance are recorded under the basis of accounting described above on the statement of net position. In addition, interfund loans and grants received in advance are reported in the governmental fund financial statements if applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Cash

Cash includes amounts in demand deposits and money market accounts.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and garbage fund in the enterprise fund statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives (amounts in years):

| | |
|---------------------------------|-------|
| Buildings | 50 |
| Vehicles, Machinery & Equipment | 7-15 |
| Buildings and Land Improvements | 10-25 |
| Furniture | 7-15 |
| Infrastructure | 15-50 |

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

When applicable, in the fund financial statements, the face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, and discounts received on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

Fund Balance

Fund Balance Spending Policy. It is the policy of the City to spend restricted resources first, followed by unrestricted resources. It is also the policy of the City to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

Net Position

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.

Net investment in capital assets is reported for capital assets less accumulated depreciation, as well as net of any related debt to purchase or finance capital assets. These assets are not available for future spending.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund.

Interfund Transactions

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

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

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

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Beginning net position adjustments were necessary for restating net capital assets, long term debt reclassifications, fund balance classifications, removing compensated absences and for removing activity relating to Pensions. Beginning fund balance adjustments were necessary for reclassifications of fund types. The results increased beginning net position of the governmental activities for the City, increased beginning fund balance for the General Fund, decreased beginning fund balance for the Special Revenue Fund, decreased beginning fund balance for the Debt Service Fund, decreased beginning net position for the Water, Sewer, and Garbage Enterprise Funds, and increased net position for the Nonmajor Enterprise Fund. Adjustments to beginning net position and fund balance are as follows:

| Primary Government - Governmental Activities | Amounts |
|---|--------------|
| Beginning Net Position, as previously reported | \$ 4,006,581 |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Deferred Outflows for Pension PPA | (39,785) |
| Deferred Inflows for Pension PPA | 52,423 |
| Net Pension Liability PPA | 268,557 |
| Compensated Absences PPA | 5,775 |
| Capital Asset, Net PPA | (53,940) |
| Long Term Debt Reclass PPA | 163,000 |
| Fund Balance PPA | (24,880) |
| Net Position January 1, as restated | \$ 4,377,731 |

CITY OF LINCOLN

Notes to the Financial Statements – Continued

| Primary Government - General Fund | Amounts |
|---|-------------------|
| Beginning Fund Balance, as previously reported | \$ 269,468 |
| Adjustments to restate the January 1, 2016 Fund Balance: | |
| Fund Balance Classification Changes | 200,177 |
| Fund Balance January 1, as restated | <u>\$ 469,645</u> |

| Primary Government - Special Revenue Fund | Amounts |
|---|---------------------|
| Beginning Fund Balance, as previously reported | \$ 1,699,592 |
| Adjustments to restate the January 1, 2016 Fund Balance: | |
| Fund Balance Classification Changes | (221,530) |
| Fund Balance January 1, as restated | <u>\$ 1,478,062</u> |

| Primary Government - Debt Service Fund | Amounts |
|---|-------------------|
| Beginning Fund Balance, as previously reported | \$ 369,242 |
| Adjustments to restate the January 1, 2016 Fund Balance: | |
| Fund Balance Classification Changes | (3,527) |
| Fund Balance January 1, as restated | <u>\$ 365,715</u> |

| Enterprise Fund - Water | Amounts |
|---|-------------------|
| Beginning Net Position, as previously reported | \$ 1,011,210 |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Fund Balance Classification Change PPA | 8,210 |
| Compensated Absences PPA | 4,020 |
| Long Term Debt Reclass PPA | (163,000) |
| Capital Asset, Net PPA | (21,098) |
| Net Position January 1, as restated | <u>\$ 839,342</u> |

| Enterprise Fund - Sewer | Amounts |
|---|---------------------|
| Beginning Net Position, as previously reported | \$ 1,018,269 |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Compensated Absences PPA | 338 |
| Capital Asset, Net PPA | (10,369) |
| Net Position January 1, as restated | <u>\$ 1,008,238</u> |

| Enterprise Fund - Garbage | Amounts |
|---|------------------|
| Beginning Net Position, as previously reported | \$ 92,118 |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Compensated Absences PPA | 225 |
| Capital Asset, Net PPA | (828) |
| Net Position January 1, as restated | <u>\$ 91,515</u> |

| Enterprise Fund - Nonmajor | Amounts |
|---|------------------|
| Beginning Net Position, as previously reported | \$ - |
| Adjustments to restate the January 1, 2016 Net Position: | |
| Fund Balance Classification Change PPA | 20,635 |
| Net Position January 1, as restated | <u>\$ 20,635</u> |

NOTE 3 DEPOSITS**Custodial Credit Risk**

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the City would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The City does not have a formal policy regarding deposits that limits the amount they may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2017, the City's carrying amount of deposits totaled \$4,609,809, and the bank balances totaled \$4,699,296. Of the bank balances, \$391,387 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

At year ended December 31, 2016, the City's carrying amount of deposits totaled \$4,341,383, and the bank balances totaled \$4,375,039. Of the bank balances, \$408,859 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

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

NOTE 5 TRANSFERS

During 2017, transfers were performed to move excess Water Funds into the General Fund. In addition, transfers were performed for the payment of the Water Reservoir Revenue Bonds.

| | 2017 | |
|----------------------------|-------------------------|--------------------------|
| | Transfers In | Transfers Out |
| Governmental Funds | | |
| General Fund | \$ 20,000 | \$ - |
| Business-Type Funds | | |
| Water Fund | 34,043 | (54,043) |
| Total Transfers | \$ 54,043 | \$ (54,043) |

No transfers occurred during 2016.

NOTE 6 CAPITAL ASSETS**Governmental Activities**

The following is a summary of changes in capital assets for the years ended 2017 and 2016:

| Governmental Activities | Balance 1/1/17 | Increases | Decreases | Transfers | Balance 12/31/17 |
|--|---------------------------|--------------------|------------------|--------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Construction in Progress | \$ 68,702 | \$ 391 | \$ - | \$ (69,093) | \$ - |
| Land | 12,000 | - | - | - | 12,000 |
| Total Capital Assets, Not Being Depreciated | \$ 80,702 | \$ 391 | \$ - | \$ (69,093) | \$ 12,000 |
| <i>Capital assets, being depreciated</i> | | | | | |
| Buildings | \$ 594,795 | \$ - | \$ - | \$ - | \$ 594,795 |
| Building Improvements | 13,694 | - | - | - | 13,694 |
| Furniture | 29,339 | - | - | - | 29,339 |
| Infrastructure Improvements | 2,170,070 | - | - | 69,093 | 2,239,163 |
| Machinery & Equipment | 771,858 | 95,215 | - | - | 867,073 |
| Total Capital Assets, Being Depreciated | \$ 3,579,756 | \$ 95,215 | \$ - | \$ 69,093 | \$ 3,744,064 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Buildings | \$ 135,865 | \$ 11,896 | \$ - | \$ - | \$ 147,761 |
| Building Improvements | 6,202 | 1,007 | - | - | 7,209 |
| Furniture | 22,624 | 610 | - | - | 23,234 |
| Infrastructure Improvements | 507,354 | 53,940 | - | - | 561,294 |
| Machinery & Equipment | 486,799 | 84,183 | - | - | 570,982 |
| Total Accumulated Depreciation | \$ 1,158,844 | \$ 151,636 | \$ - | \$ - | \$ 1,310,480 |
| Total Capital Assets Being Depreciated, Net | \$ 2,420,912 | \$ (56,421) | \$ - | \$ 69,093 | \$ 2,433,584 |
| Toal Capital Assets, Net | \$ 2,501,614 | \$ (56,030) | \$ - | \$ - | \$ 2,445,584 |

| Governmental Activities | Balance Restated 1/1/16 | Increases | Decreases | Transfers | Balance 12/31/16 |
|--|--|-------------------|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Construction in Progress | \$ - | \$ 68,702 | \$ - | \$ - | \$ 68,702 |
| Land | 12,000 | - | - | - | 12,000 |
| Total Capital Assets, Not Being Depreciated | \$ 12,000 | \$ 68,702 | \$ - | \$ - | \$ 80,702 |
| <i>Capital assets, being depreciated</i> | | | | | |
| Buildings | \$ 594,795 | \$ - | \$ - | \$ - | \$ 594,795 |
| Building Improvements | 13,694 | - | - | - | 13,694 |
| Furniture | 29,339 | - | - | - | 29,339 |
| Infrastructure Improvements | 2,170,070 | - | - | - | 2,170,070 |
| Machinery & Equipment | 577,693 | 194,165 | - | - | 771,858 |
| Total Capital Assets, Being Depreciated | \$ 3,385,591 | \$ 194,165 | \$ - | \$ - | \$ 3,579,756 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Buildings | \$ 123,969 | \$ 11,896 | \$ - | \$ - | \$ 135,865 |
| Building Improvements | 5,194 | 1,008 | - | - | 6,202 |
| Furniture | 22,013 | 611 | - | - | 22,624 |
| Infrastructure Improvements | 456,869 | 50,485 | - | - | 507,354 |
| Machinery & Equipment | 405,236 | 81,563 | - | - | 486,799 |
| Total Accumulated Depreciation | \$ 1,013,281 | \$ 145,563 | \$ - | \$ - | \$ 1,158,844 |
| Total Capital Assets Being Depreciated, Net | \$ 2,372,310 | \$ 48,602 | \$ - | \$ - | \$ 2,420,912 |
| Toal Capital Assets, Net | \$ 2,384,310 | \$ 117,304 | \$ - | \$ - | \$ 2,501,614 |

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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

| Governmental Activities | 2017 | 2016 |
|--------------------------------|-------------|-------------|
| General Government | \$ 12,674 | \$ 12,674 |
| Public Works | 120,606 | 114,272 |
| Public Safety | 18,356 | 18,617 |
| Total Depreciation Expense | \$ 151,636 | \$ 145,563 |

Business-Type ActivitiesWater Fund

The following is a summary of changes in capital assets for the years ended 2017 and 2016:

| Business-Type Activity - Water Fund | Balance 1/1/17 | Increases | Decreases | Balance 12/31/17 |
|---|---------------------------|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 10,766 | \$ - | \$ - | \$ 10,766 |
| Total Capital Assets, Not Being Depreciated | \$ 10,766 | \$ - | \$ - | \$ 10,766 |
| <i>Capital assets, being depreciated</i> | | | | |
| Buildings | \$ 354,435 | \$ - | \$ - | \$ 354,435 |
| Machinery & Equipment | 1,366,329 | 50,334 | - | 1,416,663 |
| Total Capital Assets, Being Depreciated | \$ 1,720,764 | \$ 50,334 | \$ - | \$ 1,771,098 |
| <i>Less accumulated depreciation for</i> | | | | |
| Buildings | 256,838 | 7,089 | - | 263,927 |
| Machinery & Equipment | 1,348,497 | 21,096 | - | 1,369,593 |
| Total Accumulated Depreciation | \$ 1,605,335 | \$ 28,185 | \$ - | \$ 1,633,520 |
| Total Capital Assets Being Depreciated, Net | \$ 115,429 | \$ 22,149 | \$ - | \$ 137,578 |
| Total Capital Assets, Net | \$ 126,195 | \$ 22,149 | \$ - | \$ 148,344 |

| Business-Type Activity - Water Fund | Balance Restated 1/1/16 | Increases | Decreases | Balance 12/31/16 |
|---|--|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 10,766 | \$ - | \$ - | \$ 10,766 |
| Total Capital Assets, Not Being Depreciated | \$ 10,766 | \$ - | \$ - | \$ 10,766 |
| <i>Capital assets, being depreciated</i> | | | | |
| Buildings | \$ 354,435 | \$ - | \$ - | \$ 354,435 |
| Machinery & Equipment | 1,366,329 | - | - | 1,366,329 |
| Total Capital Assets, Being Depreciated | \$ 1,720,764 | \$ - | \$ - | \$ 1,720,764 |
| <i>Less accumulated depreciation for</i> | | | | |
| Buildings | 249,750 | 7,088 | - | 256,838 |
| Machinery & Equipment | 1,332,739 | 15,758 | - | 1,348,497 |
| Total Accumulated Depreciation | \$ 1,582,489 | \$ 22,846 | \$ - | \$ 1,605,335 |
| Total Capital Assets Being Depreciated, Net | \$ 138,275 | \$ (22,846) | \$ - | \$ 115,429 |
| Total Capital Assets, Net | \$ 149,041 | \$ (22,846) | \$ - | \$ 126,195 |

Depreciation expense was charged to the Water function.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

Sewer Fund

The following is a summary of changes in capital assets for the years ended 2017 and 2016:

| Business-Type Activity - Sewer Fund | Balance 1/1/17 | Increases | Decreases | Balance 12/31/17 |
|---|---------------------------|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| Total Capital Assets, Not Being Depreciated | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| <i>Capital assets, being depreciated</i> | | | | |
| Infrastructure | \$ 217,090 | \$ - | \$ - | \$ 217,090 |
| Machinery & Equipment | 29,184 | 57,000 | - | 86,184 |
| Total Capital Assets, Being Depreciated | \$ 246,274 | \$ 57,000 | \$ - | \$ 303,274 |
| <i>Less accumulated depreciation for</i> | | | | |
| Infrastructure | \$ 71,883 | \$ 9,488 | \$ - | \$ 81,371 |
| Machinery & Equipment | 26,080 | 8,919 | - | 34,999 |
| Total Accumulated Depreciation | \$ 97,963 | \$ 18,407 | \$ - | \$ 116,370 |
| Total Capital Assets Being Depreciated, Net | \$ 148,311 | \$ 38,593 | \$ - | \$ 186,904 |
| Total Capital Assets, Net | \$ 173,311 | \$ 38,593 | \$ - | \$ 211,904 |

| Business-Type Activity - Sewer Fund | Balance Restated 1/1/16 | Increases | Decreases | Balance 12/31/16 |
|---|--|------------------|------------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| Total Capital Assets, Not Being Depreciated | \$ 25,000 | \$ - | \$ - | \$ 25,000 |
| <i>Capital assets, being depreciated</i> | | | | |
| Infrastructure | \$ 217,090 | \$ - | \$ - | \$ 217,090 |
| Machinery & Equipment | 29,184 | - | - | 29,184 |
| Total Capital Assets, Being Depreciated | \$ 246,274 | \$ - | \$ - | \$ 246,274 |
| <i>Less accumulated depreciation for</i> | | | | |
| Infrastructure | \$ 62,395 | \$ 9,488 | \$ - | \$ 71,883 |
| Machinery & Equipment | 24,918 | 1,162 | - | 26,080 |
| Total Accumulated Depreciation | \$ 87,313 | \$ 10,650 | \$ - | \$ 97,963 |
| Total Capital Assets Being Depreciated, Net | \$ 158,961 | \$ (10,650) | \$ - | \$ 148,311 |
| Total Capital Assets, Net | \$ 183,961 | \$ (10,650) | \$ - | \$ 173,311 |

Depreciation expense was charged to the Sewer function.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

Garbage Fund

The following is a summary of changes in capital assets for the years ended 2017 and 2016:

| Business-Type Activity - Garbage Fund | Balance 1/1/17 | Increases | Decreases | Balance 12/31/17 |
|--|---------------------------|-------------------|------------------|-----------------------------|
| <i>Capital assets, being depreciated</i> | | | | |
| Land Improvements | \$ 7,388 | \$ - | \$ - | \$ 7,388 |
| Machinery & Equipment | 13,110 | - | - | 13,110 |
| Total Capital Assets, Being Depreciated | \$ 20,498 | \$ - | \$ - | \$ 20,498 |
| <i>Less accumulated depreciation for</i> | | | | |
| Land Improvements | \$ 3,841 | \$ 296 | \$ - | \$ 4,137 |
| Machinery & Equipment | 5,348 | 706 | - | 6,054 |
| Total Accumulated Depreciation | \$ 9,189 | \$ 1,002 | \$ - | \$ 10,191 |
| Total Capital Assets Being Depreciated, Net | \$ 11,309 | \$ (1,002) | \$ - | \$ 10,307 |
| Total Capital Assets, Net | \$ 11,309 | \$ (1,002) | \$ - | \$ 10,307 |

| Business-Type Activity - Garbage Fund | Balance Restated 1/1/16 | Increases | Decreases | Balance 12/31/16 |
|--|--|-------------------|------------------|-----------------------------|
| <i>Capital assets, being depreciated</i> | | | | |
| Land Improvements | \$ 7,388 | \$ - | \$ - | \$ 7,388 |
| Machinery & Equipment | 13,110 | - | - | 13,110 |
| Total Capital Assets, Being Depreciated | \$ 20,498 | \$ - | \$ - | \$ 20,498 |
| <i>Less accumulated depreciation for</i> | | | | |
| Land Improvements | \$ 3,546 | \$ 295 | \$ - | \$ 3,841 |
| Machinery & Equipment | 4,642 | 706 | - | 5,348 |
| Total Accumulated Depreciation | \$ 8,188 | \$ 1,001 | \$ - | \$ 9,189 |
| Total Capital Assets Being Depreciated, Net | \$ 12,310 | \$ (1,001) | \$ - | \$ 11,309 |
| Total Capital Assets, Net | \$ 12,310 | \$ (1,001) | \$ - | \$ 11,309 |

Depreciation expense was charged to the Garbage function.

NOTE 7 LONG-TERM LIABILITIES**Governmental Activities**

The following changes occurred in long-term liabilities for the years ended 2017 and 2016:

| Governmental Activities | Balance 1/1/17 | Increases | Decreases | Balance 12/31/17 | Due Within One Year |
|--------------------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Refunding Improvement Bonds | \$ 80,000 | \$ - | \$ 80,000 | \$ - | \$ - |
| General Obligation Bonds | 145,000 | - | 10,000 | 135,000 | 10,000 |
| Total Long-Term Debt | \$ 225,000 | \$ - | \$ 90,000 | \$ 135,000 | \$ 10,000 |

| Governmental Activities | Restated Balance 1/1/16 | Increases | Decreases | Balance 12/31/16 | Due Within One Year |
|--------------------------------|--|------------------|------------------|-----------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Refunding Improvement Bonds | \$ 165,000 | \$ - | \$ 85,000 | \$ 80,000 | \$ 80,000 |
| General Obligation Bonds | 155,000 | - | 10,000 | 145,000 | 10,000 |
| Total Long-Term Debt | \$ 320,000 | \$ - | \$ 95,000 | \$ 225,000 | \$ 90,000 |

CITY OF LINCOLN

Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2017 is as follows:

| PRIMARY GOVERNMENT | | |
|------------------------------------|---|-----------------|
| Governmental Activities | | |
| Year Ending December 31 | General Obligation Bonds Payable | |
| | Principal | Interest |
| 2018 | 10,000 | 6,150 |
| 2019 | 10,000 | 5,725 |
| 2020 | 10,000 | 5,300 |
| 2021 | 10,000 | 4,875 |
| 2022 | 10,000 | 4,425 |
| 2023 - 2027 | 70,000 | 12,931 |
| 2028 - 2032 | 15,000 | 375 |
| Total | \$ 135,000 | \$ 39,781 |

Business-Type Activities

The following changes occurred in long-term liabilities for the years ended 2017 and 2016:

| | Balance 1/1/17 | Increases | Decreases | Balance 12/31/17 | Due Within One Year |
|-----------------------|---------------------------|------------------|------------------|-----------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Revenue Bonds Payable | \$ 149,000 | \$ - | \$ 15,000 | \$ 134,000 | \$ 15,000 |

| | Restated Balance 1/1/16 | Increases | Decreases | Balance 12/31/16 | Due Within One Year |
|-----------------------|--|------------------|------------------|-----------------------------|--------------------------------|
| Long-Term Debt | | | | | |
| Revenue Bonds Payable | \$ 163,000 | \$ - | \$ 14,000 | \$ 149,000 | \$ 15,000 |

The annual requirements to amortize the outstanding long-term debt at December 31, 2017 is as follows:

| PRIMARY GOVERNMENT | | |
|------------------------------------|----------------------------------|-----------------|
| Enterprise Activities | | |
| Year Ending December 31 | Revenue Bonds Payable | |
| | Principal | Interest |
| 2018 | 15,000 | 3,350 |
| 2019 | 16,000 | 2,975 |
| 2020 | 16,000 | 2,575 |
| 2021 | 17,000 | 2,175 |
| 2022 | 17,000 | 1,750 |
| 2023 - 2027 | 53,000 | 2,675 |
| 2028 - 2032 | - | - |
| Total | \$ 134,000 | \$ 15,500 |

NOTE 8: PENSION PLAN**General Information about the NDPERS Pension Plan*****North Dakota Public Employees Retirement System (Main System)***

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

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

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

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired after January 1, 2016 the Rule of 85 will be replaced with a rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

CITY OF LINCOLN

Notes to the Financial Statements – Continued

Member and Employer Contributions

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

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

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

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

At December 31, 2017 and 2016, the City's proportionate share of the net pension liability was \$747,022 and \$414,974 respectively. The net pension liability was measured as of June 30, 2017 and 2016 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2017 and 2016, the City's proportion was .046476 and .042579 percent, respectively, which was an increase of .003897 percent for 2017 and an increase of .010779 percent for 2016. The Employer's share of the net pension liability as well as the deferred inflows or outflows of resources are not reported in financial statements as the City is reporting on the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | | |
|----------------------------|---|----------------|
| Inflation | 3.50% | |
| Salary increases | Service at Beginning of year: | Increase Rate: |
| | 0 | 15.00% |
| | 1 | 10.00% |
| | 2 | 8.00% |
| | Age* | |
| | Under 36 | 8.00% |
| | 36 – 40 | 7.50% |
| | 41 – 49 | 6.00% |
| | 50+ | 5.00% |
| | * Age-based salary increase rates apply for employees with three or more years of service | |
| Investment rate of return | 7.75%, net of investment expenses | |
| Cost-of-living adjustments | None | |

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------------|--------------------------|---|
| Domestic Equity | 31% | 6.05% |
| International Equity | 21% | 6.70% |
| Private Equity | 5% | 10.20% |
| Domestic Fixed Income | 17% | 1.43% |
| International Fixed Income | 5% | (0.45)% |
| Global Real Assets | 20% | 5.16% |
| Cash Equivalents | 1% | 0.00% |

Discount rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the total pension liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet all benefit payments, which is the case with the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) A tax-exempt municipal bond rate based on the index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

The pension plan's fiduciary net position was projected to be sufficient to make all projected future benefit payments through the year of 2061. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through the year of 2061, and the municipal bond rate was applied to all benefit payments after that date. For the purpose of this valuation, the expected rate of return on pension plan investments is 7.75%; the municipal bond rate is 3.56%; and the resulting Single Discount Rate is 6.44%.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the current discount rate of 6.44 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.44 percent) or 1-percentage-point higher (7.44 percent) than the current rate:

| | 1% Decrease (5.44%) | Current Discount Rate (6.44%) | 1% Increase (7.44%) |
|--|----------------------------|--------------------------------------|----------------------------|
| Proportionate Share of the Net Pension Liability | \$ 1,014,105 | \$ 747,022 | \$ 524,820 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report.

NOTE 9: OPEB PLAN**General Information about the OPEB Plan****North Dakota Public Employees Retirement System**

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

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

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

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision, and long-term care plan and any other health insurance plan. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2017, the City's proportionate share of the net OPEB liability was \$34,691. The net OPEB liability was measured as of July 1, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net OPEB liability was based on their respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2017, the City's proportion was .043856 percent. The Employer's share of the net OPEB liability as well as

CITY OF LINCOLN

Notes to the Financial Statements – Continued

the deferred inflows or outflows of resources are not reported in financial statements as the City is reporting on the modified cash basis of accounting.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|-----------------------------------|
| Inflation | 2.50% |
| Salary Increases | Not applicable |
| Investment rate or return | 7.50%, net of investment expenses |
| Cost of living adjustments | None |

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2017 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|--------------------------|---|
| Large Cap Domestic Equities | 37% | 5.80% |
| Small Cap Domestic Equities | 9% | 7.05% |
| International Equities | 14% | 6.20% |
| Domestic Fixed Income | 40% | 1.56% |

Discount Rate

The discount rate used to measure the total OPEB liability was 7.5%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2017 and July 1, 2016 HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on RHIC plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Plans as of June 30, 2017, calculated using the discount rate of 7.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|--------------------------------|--|--------------------------------|
| Proportionate Share of the OPEB Liability | \$ 43,428 | \$ 34,691 | \$ 27,201 |

NOTE 10 RISK MANAGEMENT

The City 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 pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and for automobile.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12-month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$2,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City has worker's compensation with the North Dakota Workforce Safety and Insurance.

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

NOTE 11 TAX ABATEMENTS

A tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to tax a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

At December 31, 2016, local governments within the City provided tax abatements to individuals and commercial entities in the form of property tax exemptions under the following criteria.

Single Family Residence

Under NDCC §57-02-08(35), single family property owners are eligible for property tax incentives for the specified proper that meet state requirements.

General Criteria: Up to one hundred fifty thousand dollars of the true and full value of all new single-family, condominium, and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time if all the following conditions are met:

- The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of the property by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed.
- Special assessments and taxes on the property upon which the residence is situated are not delinquent.

The total reduction in property tax revenue due to tax abatements is \$61,192. No tax abatements were given in 2017.

NOTE 12 SUBSEQUENT EVENTS

During 2019, the City passed a resolution authorizing the issuance of \$836,000 Water Revenue Bonds, Series 2018 payable from Net Revenues of the Water Utility Fund. The Bonds have an interest rate of 1.5% and will mature on September 1, 2039. During 2019, the City drew down a total of \$678,291. During 2021 and 2022, the City drew down an additional \$115,909 and \$41,800 respectively. During 2019, 2020, and 2021 the City made principal payments in the amounts of \$16,000, \$36,000, and \$35,000 respectively.

CITY OF LINCOLNNotes to the Financial Statements – Continued

During 2022, the city issued \$1,858,000 in Drinking Water State Revolving Loan Fund drawdown loans for a Water Tower project. As of the audit report date, the city has made draws of \$149,814.

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

CITY OF LINCOLN

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2017

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------------|--------------------------|--------------------------|-------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 665,651 | \$ 665,651 | \$ 641,511 | \$ (24,140) |
| Licenses, Permits and Fees | 38,775 | 38,775 | 46,437 | 7,662 |
| Charges for Services | 20,300 | 20,300 | 68,249 | 47,949 |
| Intergovernmental | 272,000 | 272,000 | 241,633 | (30,367) |
| Interest | 2,500 | 2,500 | 7,483 | 4,983 |
| Total Revenues | <u>\$ 999,226</u> | <u>\$ 999,226</u> | <u>\$ 1,005,313</u> | <u>\$ 6,087</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 447,544 | \$ 447,544 | \$ 436,140 | \$ 11,404 |
| Public Safety | 472,667 | 472,667 | 428,576 | 44,091 |
| Total Expenditures | <u>\$ 920,211</u> | <u>\$ 920,211</u> | <u>\$ 864,716</u> | <u>\$ 55,495</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 79,015</u> | <u>\$ 79,015</u> | <u>\$ 140,597</u> | <u>\$ 61,581</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | \$ - | \$ - | \$ 20,000 | \$ 20,000 |
| Net Change in Fund Balances | <u>\$ 79,015</u> | <u>\$ 79,015</u> | <u>\$ 160,597</u> | <u>\$ 81,581</u> |
| Fund Balances - January 1 | <u>\$ 335,620</u> | <u>\$ 335,620</u> | <u>\$ 335,620</u> | <u>\$ -</u> |
| Fund Balances - December 31 | <u><u>\$ 414,635</u></u> | <u><u>\$ 414,635</u></u> | <u><u>\$ 496,217</u></u> | <u><u>\$ 81,581</u></u> |

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

CITY OF LINCOLNBudgetary Comparison Schedule - Special Revenue Fund
For the Year Ended December 31, 2017

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|-----------------|--------------|-------------------------------|
| REVENUES | | | | |
| Property Tax | \$ 33,917 | \$ 33,917 | \$ 32,869 | \$ (1,048) |
| Intergovernmental | 138,700 | 138,700 | 153,675 | 14,975 |
| Interest Income | - | - | 12 | 12 |
| Total Revenues | \$ 172,617 | \$ 172,617 | \$ 186,556 | \$ 13,939 |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 46,840 | \$ 46,840 | \$ 36,075 | \$ 10,765 |
| Public Works | 240,211 | 240,211 | 274,754 | (34,543) |
| Culture & Recreation | 22,600 | 22,600 | 5,952 | 16,648 |
| Total Expenditures | \$ 309,651 | \$ 309,651 | \$ 316,781 | \$ (7,130) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (137,034) | \$ (137,034) | \$ (130,225) | \$ 6,808 |
| Fund Balances - January 1 | \$ 1,394,051 | \$ 1,394,051 | \$ 1,394,051 | \$ - |
| Fund Balances - December 31 | \$ 1,405,368 | \$ 1,405,368 | \$ 1,263,826 | \$ (141,543) |

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

CITY OF LINCOLN

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------------|--------------------------|--------------------------|-------------------------------|
| REVENUES | | | | |
| Property Taxes | \$ 563,271 | \$ 563,271 | \$ 566,886 | \$ 3,615 |
| Licenses, Permits and Fees | 41,675 | 41,675 | 51,580 | 9,905 |
| Charges for Services | 20,000 | 20,000 | 51,075 | 31,075 |
| Intergovernmental | 272,000 | 272,000 | 258,434 | (13,566) |
| Interest | 2,500 | 2,500 | 6,001 | 3,501 |
| Miscellaneous | 600 | 600 | 16,325 | 15,725 |
| Total Revenues | <u>\$ 900,046</u> | <u>\$ 900,046</u> | <u>\$ 950,301</u> | <u>\$ 50,255</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 410,759 | \$ 410,759 | \$ 636,354 | \$ (225,595) |
| Public Safety | 453,920 | 453,920 | 447,972 | 5,948 |
| Total Expenditures | <u>\$ 864,679</u> | <u>\$ 864,679</u> | <u>\$ 1,084,326</u> | <u>\$ (219,647)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>\$ 35,367</u> | <u>\$ 35,367</u> | <u>\$ (134,025)</u> | <u>\$ (169,392)</u> |
| Fund Balances - January 1 | <u>\$ 269,468</u> | <u>\$ 269,468</u> | <u>\$ 269,468</u> | <u>\$ -</u> |
| Prior Period Adjustment | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 200,177</u> | <u>\$ 200,177</u> |
| Fund Balance - January 1, as restated | <u>\$ 269,468</u> | <u>\$ 269,468</u> | <u>\$ 469,645</u> | <u>\$ 200,177</u> |
| Fund Balances - December 31 | <u><u>\$ 304,835</u></u> | <u><u>\$ 304,835</u></u> | <u><u>\$ 335,620</u></u> | <u><u>\$ 30,785</u></u> |

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

CITY OF LINCOLNBudgetary Comparison Schedule - Special Revenue Fund
For the Year Ended December 31, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--|--------------------|-----------------|--------------|-------------------------------|
| REVENUES | | | | |
| Property Tax | \$ 20,198 | \$ 20,198 | \$ 352 | \$ (19,846) |
| Intergovernmental | 190,000 | 190,000 | 146,907 | (43,093) |
| Interest Income | - | - | 44 | 44 |
| Miscellaneous | - | - | 7,930 | 7,930 |
| Total Revenues | \$ 210,198 | \$ 210,198 | \$ 155,232 | \$ (54,966) |
| EXPENDITURES | | | | |
| Current | | | | |
| General Government | \$ 6,840 | \$ 6,840 | \$ 11,083 | \$ (4,243) |
| Public Works | 188,520 | 188,520 | 220,303 | (31,783) |
| Culture & Recreation | 19,872 | 19,872 | 7,857 | 12,015 |
| Total Expenditures | \$ 215,232 | \$ 215,232 | \$ 239,243 | \$ (24,011) |
| Excess (Deficiency) of Revenues Over Expenditures | \$ (5,034) | \$ (5,034) | \$ (84,011) | \$ (78,977) |
| Fund Balances - January 1 | \$ 1,699,592 | \$ 1,699,592 | \$ 1,699,592 | \$ - |
| Prior Period Adjustment | \$ - | \$ - | \$ (221,530) | \$ (221,530) |
| Fund Balances - January 1 Restated | \$ 1,699,592 | \$ 1,699,592 | \$ 1,478,062 | \$ (221,530) |
| Fund Balances - December 31 | \$ 1,694,558 | \$ 1,694,558 | \$ 1,394,051 | \$ (300,507) |

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

CITY OF LINCOLN

Notes to the Supplementary Information
For the Years Ended December 31, 2017 and 2016

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund, each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- The governing body of each municipality, annually or before September tenth, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).
- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. The governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

NOTE 2 LEGAL COMPLIANCE - BUDGETS

The board of City commissioners did not amend the 2017 and 2016 City expenditure budgets.



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*

Independent Auditor's Report

City Council
City of Lincoln
Lincoln, North Dakota

We have audited, 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, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and aggregate remaining fund information of the City of Lincoln as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements, and have issued our report thereon dated November 21, 2023. Our report issued a qualified opinion over business-type activities, water fund, sewer fund, garbage fund, and aggregate remaining fund information because the City did not maintain supporting documentation related to the city water, sewer, garbage, and non-major enterprise billings and collections.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 audit findings*, we did identify certain deficiencies in internal controls 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 audit findings* as items 2017-001 through 2017-007, and 2017-009 to be material weaknesses.

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 accompanying *schedule of audit findings* as item 2017-008 and 2017-010 to be a significant deficiency.

CITY OF LINCOLN

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of audit findings* as item 2017-007.

City of Lincoln's Response to Findings

The City of Lincoln's response to the findings identified in our audit is described in the accompanying *schedule of audit findings*. The City of Lincoln'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.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
November 21, 2023

Summary of Auditor's Results

For the Years Ended December 31, 2017 and 2016

Type of Report Issued:

Internal control over financial reporting

| | | | | |
|---|---|-----|------|-------|
| Noncompliance material to financial statements noted? | X | Yes | None | Noted |
|---|---|-----|------|-------|

CITY OF LINCOLN

Schedule of Audit Findings

For the Years Ended December 31, 2017 and 2016

2017-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

The City of Lincoln has limited staff members responsible for the primary accounting functions. A lack of segregation of duties exists as limited personnel are responsible to collect and deposit monies, issue checks, send checks to vendors, record receipts disbursement in journals, maintain the general ledger, create credit memos, and perform bank reconciliations.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of the City of Lincoln's financial condition, whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of the City of Lincoln.

Criteria

According to the COSO framework, proper internal control surrounding custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements dictates that there should be sufficient accounting personnel, so duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the city.

Prior Recommendation

Yes.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Financial statements and credit memos should be reviewed by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

City of Lincoln's Response

We agree. During 2016 and 2017, duties were not segregated as they should have been. This has since been rectified as we now have four (4) administrative staff. Employees that record and deposit funds are separated from those that oversee payables. Reconciliations are done by the City Auditor. Financial statements and reconciliations are reviewed and approved by Council through a motion.

2017-002 COUNCIL APPROVAL OF EXPENDITURES – MATERIAL WEAKNESS

Condition

The City of Lincoln was unable to provide evidence of city council approval for 21 out of 45 expenditures tested totaling \$247,214.

Effect

Without an adequate approval process of the City of Lincoln's expenditures, the city exposes itself to an increased risk of loss of assets, potential liabilities, and damage to the City of Lincoln's reputation, whether due to error or fraud.

Cause

The City of Lincoln does not have adequate policies and procedures in place to ensure all expenditures are approved by the city council.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to expenditures paid by the city, management is responsible for adequate internal controls surrounding the approval process.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln update its policies and procedures to ensure that all payments are approved by the city council.

City of Lincoln's Response

We agree. Currently, Council approval is needed for all expenditure. Signature holders are the Mayor, City Council President, and the City Auditor. With having the Council President and Mayor as the designated signature holders, the City administration cannot write checks without the knowledge of one of the other two, which are on Council.

2017-003 AUDIT ADJUSTMENTS – MATERIAL WEAKNESS

Condition

During the audit of the City of Lincoln, we proposed adjusting entries to the financial statements in accordance with the modified cash basis of accounting. The adjustments were approved by management and are reflected in the financial statements.

Effect

There is an increased risk of material misstatement to the City of Lincoln's financial statements.

Cause

The City of Lincoln may not have procedures in place to ensure the financial statements are complete and accurate.

Criteria

The City of Lincoln is responsible for the preparation of its financial statements and related note disclosures to ensure it is reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

Yes.

Recommendation

We recommend the City of Lincoln review its procedures for the preparation of the financial statements to ensure the financial statements are complete and accurate in accordance with the modified cash basis of accounting.

City of Lincoln's Response

We agree. The adjustments have been implemented at the time of the audit.

2017-004 FRAUD RISK ASSESSMENT – MATERIAL WEAKNESS

Condition

The City of Lincoln did not prepare a fraud risk assessment of the entire entity.

Effect

If the City of Lincoln does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Cause

The City of Lincoln may not have considered preparing a fraud risk assessment.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

City of Lincoln's Response

We agree. A fraud risk assessment will be completed.

2017-005 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

The City of Lincoln did not maintain supporting documentation for the following items:

- Four capital asset additions during the audit period totaling \$97,900.
- Vehicle titles for five capital asset additions during the audit period totaling \$207,492

We were able to perform alternate procedures to verify that the City of Lincoln had these items in their possession.

Effect

The City of Lincoln may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

The City of Lincoln did not have established policies and procedures for maintaining supporting documentation relating to capital asset additions, including vehicle titles.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln establish policies and procedures to ensure supporting documentation is maintained for capital asset additions, including titles for all vehicle purchases.

City of Lincoln's Response

We agree. Titles for assets will be documented as they are purchased. At that time, the titles will be accounted for.

2017-006 LACK OF SUPPORTING DOCUMENTATION – WATER, SEWER, AND GARBAGE - MATERIAL WEAKNESS

Condition

The City of Lincoln did not maintain supporting documentation related to the city water, sewer, garbage, and non-major enterprise billings and collections. Due to the lack of supporting documentation we were unable to perform testing related to these activities to ensure billings were proper and collections were deposited into the proper fund. Collections during the audit period totaled \$2,725,278.

Effect

The City of Lincoln may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Due to storage limitations in the Banyon accounting system, the support documentation for years 2016 and 2017 had to be deleted.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln establish policies and procedures to ensure supporting documentation is maintained for all water, sewer, garbage, and non-major enterprise billings and collections.

City of Lincoln's Response

We agree. Storage capacity has been updated to accommodate storage needs and therefore data will no longer be deleted.

2017-007 LACK OF ESTIMATED BUDGETED CASH - MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE

Condition

The City of Lincoln did not include estimated cash amounts in the 2016 and 2017 budgets.

Effect

The estimates for year-end cash are key components in the tax levy calculation in any budget year. Thus, the City of Lincoln may have improperly calculated the tax levies for the city.

Cause

The City of Lincoln did not have a review process to ensure the budgeted beginning and ending estimated cash was included in the budget documentation.

Criteria

N.D.C.C. §40-40-05 states, "The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports."

Additionally, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the budgeting process, management is responsible for adequate internal controls surrounding the budgeting process.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln ensure its compliance with all aspects of N.D.C.C. §40-40-05. We further recommend the City of Lincoln review the budget documentation carefully to ensure estimated cash amounts are included in the preliminary and final budgets prior to approval.

City of Lincoln's Response

We agree. City of Lincoln started using a budget system in 2022 with starting cash balances as approved by the ND State Auditor's Office.

2017-008 PARKING TICKET PROCESS – SIGNIFICANT DEFICIENCY

Condition

The City of Lincoln does not have sufficient internal controls in place to ensure:

- Parking tickets are documented and monitored
- Parking tickets issued are paid timely
- Collections are deposited into the bank account and recorded into the general fund

We were unable to perform testing of parking ticket collections as the city did not maintain any documentation related to the parking tickets for the audit period.

Effect

The City of Lincoln may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

The City of Lincoln did not have established policies and procedures for maintaining supporting documentation relating to parking tickets.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln establish policies and procedures to ensure parking tickets are documented and monitored, paid timely, and deposited into the bank account and recorded into the general fund.

City of Lincoln's Response

We agree. Parking tickets are now being logged by someone other than the Clerk of Court. The Clerk then will record and deposit funds through a program called Odessey. Once the deposit slip is created, it will be compared to the ticket log. This process will be in place until the correct computer programs can be purchased and installed.

2017-009 BANK RECONCILIATION ERRORS - MATERIAL WEAKNESS

Condition

During testing of the December 31, 2016 bank reconciliation, we identified the following:

- Outstanding checks totaling \$203,758 were recorded as expenditures during 2016, even though the checks were dated for 2017. Adjustments were proposed to the financial statements and accepted by the City of Lincoln.
- Outstanding checks totaling \$32,708 cleared the bank before December of 2016, but remained as outstanding checks on the bank reconciliation.

Effect

There is an increased risk of material misstatement to the City of Lincoln's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate. In addition, the client's general ledger ending cash balance as of December 31, 2016 is currently understated by \$203,758.

Cause

City of Lincoln did not have policies and procedures in place to ensure every bank reconciliation is complete and accurate.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the bank reconciliations, management is responsible for policies and procedures for accurate and timely bank reconciliations.

Prior Recommendation

No.

Recommendation

We recommend City of Lincoln implement policies and procedures surrounding the bank reconciliation process to ensure each bank reconciliation is complete and accurate.

City of Lincoln's Response

We agree. Bank Reconciliations are now completed monthly and reviewed/approved by council.

2017-010 PAYROLL ERRORS – SIGNIFICANT DEFICIENCY

Condition

A sample of 27 payroll checks were tested for the audit period. The following errors were noted:

- 1 payroll check was based on a timesheet that were not approved by a supervisor.
- 1 payroll check included a pay rate that was not approved by the city council.

In addition, the City of Lincoln may have improperly paid for health insurance benefits on behalf of one employee in the amount of \$5,168 during 2016.

Effect

Without adequate internal controls surrounding the City of Lincoln's payroll expenditures, the City exposes itself to an increased risk of loss of assets, potential liabilities, and damage to the City of Lincoln's reputation, whether due to error or fraud.

Cause

The City of Lincoln does not have procedures in place to ensure all payroll expenditures are approved by a supervisor, based on pay rates approved by the city council, and health insurance benefits are in compliance with the employee handbook.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to payroll expenditures paid by the city, management is responsible for adequate internal controls surrounding payroll.

Prior Recommendation

Yes.

Recommendation

We recommend the City of Lincoln establish procedures to ensure timesheets are approved by a supervisor, payroll amounts are based on pay rates approved by the city council, and health insurance benefits are in compliance with the employee handbook.

City of Lincoln's Response

We agree. All wage increases are addressed in City Council meetings under agenda item; Personnel Action. Wage changes are dictated by a motion.

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GOVERNANCE COMMUNICATION

City Council
City of Lincoln
Lincoln, North Dakota

We have audited the modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln for the years ended December 31, 2017 and 2016, which collectively comprise the City of Lincoln's basic financial statements, and have issued our report thereon dated November 21, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated September 15, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Lincoln's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Lincoln's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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.

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Lincoln are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2017 and 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented 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 most sensitive estimate affecting the financial statements is useful lives of capital assets.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the financial statements under audit.

2017

Debit

Credit

Government Fund Adjustments

General Fund

To correct revenues coded as expenditures

| | | |
|--------------|-------|-------|
| Expenditures | 5,078 | - |
| Revenues | - | 5,078 |

The following material misstatements detected as a result of audit procedures were corrected by management.

| <u>Governmental Funds</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> |
|----------------------------------|---------------------|---------------|-----------------------------|---------------|--------------------------|---------------|----------------------------------|---------------|
| 2017 | General Fund | | Special Revenue Fund | | Debt Service Fund | | Government Wide | |
| <u>To Remove Payable Amounts</u> | | | | | | | | |
| Expenditures | 27,562 | - | 61,377 | - | - | - | 88,939 | - |
| Beginning Fund Balance | - | 27,562 | - | 61,377 | - | - | - | 88,939 |
| <u>To Adjust Capital Assets</u> | | | | | | | | |
| Capital Assets | - | - | - | - | - | - | 65,639 | - |
| Expenditures | - | - | - | - | - | - | 3,064 | - |
| Beginning Net Position | - | - | - | - | - | - | - | 68,703 |
| <u>Enterprise Funds</u> | | | | | | | | |
| | Water Fund | | Sewer Fund | | Garbage Fund | | Nonmajor Enterprise Funds | |
| <u>To Remove Payable Amounts</u> | | | | | | | | |
| Expenditures | 2,258 | - | 98,824 | - | 13,734 | - | 3 | - |
| Beginning Fund Balance | - | 2,258 | - | 98,824 | - | 13,734 | - | 3 |
| <u>Governmental Funds</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> | <u>Debit</u> | <u>Credit</u> |
| 2016 | General Fund | | Special Revenue Fund | | Debt Service Fund | | Government Wide | |
| <u>To Remove Payable Amounts</u> | | | | | | | | |
| Cash | 27,562 | - | 61,377 | - | - | - | 88,939 | - |
| Expenditures | - | 27,562 | - | 61,377 | - | - | - | 88,939 |
| <u>To Adjust Capital Assets</u> | | | | | | | | |
| Capital Assets | - | - | - | - | - | - | 68,702 | - |
| Expenditures | - | - | - | - | - | - | - | 68,702 |
| <u>Enterprise Funds</u> | | | | | | | | |
| | Water Fund | | Sewer Fund | | Garbage Fund | | Nonmajor Enterprise Funds | |
| <u>To Remove Payable Amounts</u> | | | | | | | | |
| Cash | 2,258 | - | 98,824 | - | 13,734 | - | 3 | - |
| Expenditures | - | 2,258 | - | 98,824 | - | 13,734 | - | 3 |

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter 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 November 21, 2023.

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'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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit other than what is listed below:

The City of Lincoln did not maintain supporting documentation related to the city water, sewer, garbage, and non-major enterprise billings and collections. Due to the lack of supporting documentation, verification of the revenues included in the financial statements was not able to be performed. Collections during the audit period totaled \$2,725,278.

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.

This information is intended solely for the use of the City Council and management of the City of Lincoln, and is not intended to be, and should not be, used for any other purpose. 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.

We issued a qualified opinion over business-type activities, water fund, sewer fund, garbage fund, and aggregate remaining fund information because the City did not maintain supporting documentation related to the city water, sewer, and garbage billings and collections.

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

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
November 21, 2023



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

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