

CITY OF ROLETTE

AUDIT REPORT

December 31, 2017

CITY OF ROLETTE
ROLETTE, NORTH DAKOTA

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For The Year Ended December 31, 2017

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**CITY OF ROLETTE
ROLETTE, NORTH DAKOTA**

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CITY OF ROLETTE

LIST OF OFFICIALS

December 31, 2017

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Rolette
Rolette, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rolette, North Dakota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental and Business-Type Activities, Proprietary Funds, and Discretely Presented Component Unit” paragraph, the financial statements referred to above do not present fairly the financial position of the governmental and business-type activities, proprietary funds, and discretely presented component unit of the City of Rolette, as of December 31, 2017, or the changes in financial position – modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of each major fund and the aggregate remaining fund information of the City of Rolette, as of December 31, 2017, and the respective changes in financial position – modified cash basis for the year then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

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

INDEPENDENT AUDITOR'S REPORT

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rolette, North Dakota's basic financial statements. The budgetary comparison information on pages 24 through 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rolette's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 our report dated February 18, 2021, on our consideration of the City of Rolette, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Rolette's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
February 18, 2021

CITY OF ROLETTE
Statement of Net Position - Modified Cash Basis
December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Rolette Airport Authority
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 428,903	\$ 441,604	\$ 870,507	\$ 5,026
Investments	<u>122,216</u>	<u>170,984</u>	<u>293,200</u>	<u>-</u>
Total Assets	551,119	612,588	1,163,707	5,026
LIABILITIES				
Long-Term Liabilities:				
Due Within One Year:				
Loan Payable	25,853	-	25,853	-
Revenue Bonds Payable	-	6,000	6,000	-
Due After One Year:				
Loan Payable	1,155,147	-	1,155,147	-
Revenue Bonds Payable	<u>-</u>	<u>18,500</u>	<u>18,500</u>	<u>-</u>
Total Liabilities	<u>1,181,000</u>	<u>24,500</u>	<u>1,205,500</u>	<u>-</u>
NET POSITION				
Restricted for:				
Special Purposes	263,194	-	263,194	-
Unrestricted	<u>(893,075)</u>	<u>588,088</u>	<u>(304,987)</u>	<u>5,026</u>
Total Net Position	<u>\$ (629,881)</u>	<u>\$ 588,088</u>	<u>\$ (41,793)</u>	<u>\$ 5,026</u>

CITY OF ROLETTE
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2017

	Net (Expense) Revenue & Changes in Net Position							
	Program Revenues				Primary Government		Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Airport Authority
<u>Functions/Programs</u>								
<u>Primary Governments</u>								
<u>Governmental Activities</u>								
General Government	\$ 116,654	\$ 8,332	\$ -	\$ -	\$ (108,322)		\$ (108,322)	
Public Safety	57,739	-	-	-	(57,739)		(57,739)	
Public Works	80,642	-	200,824	-	120,182		120,182	
Health and Welfare	34,861	51,274	-	-	16,413		16,413	
Culture and Recreation	86,900	-	-	-	(86,900)		(86,900)	
Economic Development	480	-	-	-	(480)		(480)	
Other	2,814	-	-	-	(2,814)		(2,814)	
Street Project	1,253,085	-	-	-	(1,253,085)		(1,253,085)	
Total Governmental Activities	<u>1,633,175</u>	<u>59,606</u>	<u>200,824</u>	<u>-</u>	<u>(1,372,745)</u>		<u>(1,372,745)</u>	
<u>Business-type Activities</u>								
Water	46,076	61,392	-	-		\$ 15,316	15,316	
Sewer	20,550	29,047	-	-		8,497	8,497	
Garbage	92,454	112,736	-	-		20,282	20,282	
Total Business-type Activities	<u>159,080</u>	<u>203,175</u>	<u>-</u>	<u>-</u>		<u>44,095</u>	<u>44,095</u>	
Total Primary Government	<u>\$ 1,792,255</u>	<u>\$ 262,781</u>	<u>\$ 200,824</u>	<u>\$ -</u>	<u>(1,372,745)</u>	<u>44,095</u>	<u>(1,328,650)</u>	
<u>Component Unit:</u>								
Rolette Airport Authority	<u>\$ 10,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ (10,476)</u>	
<u>General Revenues:</u>								
<u>Taxes:</u>								
Property Taxes, Levied for General Purpose					91,140	-	91,140	8,500
Property Taxes, Levied for Debt Services					1,836	-	1,836	-
Property Taxes, Levied for Special Purposes					12,583	-	12,583	-
Earning on Investments					1,375	1,507	2,882	7
Miscellaneous Revenue					35,117	32,837	67,954	-
Grant and Loan Proceeds					824,917	-	824,917	-
Transfers In (Out)					(58,927)	58,927	-	-
Total General Revenues					<u>908,041</u>	<u>93,271</u>	<u>1,001,312</u>	<u>8,507</u>
Change in Net Position					(464,704)	137,366	(327,338)	(1,969)
Net Position - Beginning of Year					(165,177)	450,722	285,545	6,995
Net Position - End of Year					<u>\$ (629,881)</u>	<u>\$ 588,088</u>	<u>\$ (41,793)</u>	<u>\$ 5,026</u>

CITY OF ROLETTE
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2017

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Hayhurst Manor	City Sales Tax	SID #2015-2		
ASSETS						
Cash and Cash Equivalents	\$ 56,227	\$ 140,503	\$ 177,749	\$ 16,444	\$ 37,980	\$ 428,903
Investments	10,000	56,460	-	-	55,756	122,216
Due from Other Funds	33,167	-	-	-	-	33,167
TOTAL ASSETS	<u>\$ 99,394</u>	<u>\$ 196,963</u>	<u>\$ 177,749</u>	<u>\$ 16,444</u>	<u>\$ 93,736</u>	<u>\$ 584,286</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ 33,167	\$ 33,167
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,167</u>	<u>33,167</u>
Fund Balances:						
Restricted	-	-	177,749	16,444	69,001	263,194
Assigned	-	196,963	-	-	24,735	221,698
Unassigned	99,394	-	-	-	(33,167)	66,227
Total Fund Balances	<u>99,394</u>	<u>196,963</u>	<u>177,749</u>	<u>16,444</u>	<u>60,569</u>	<u>551,119</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 99,394</u>	<u>\$ 196,963</u>	<u>\$ 177,749</u>	<u>\$ 16,444</u>	<u>\$ 93,736</u>	<u>\$ 584,286</u>

CITY OF ROLETTE
Reconciliation of Governmental Funds Balance Sheet
To the Statement of Net Position - Modified Cash Basis
For the year ended December 31, 2017

Total *Fund Balances* for Governmental Funds \$ 551,119

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

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities -- both current and long term -- are reported in the statement of net position. The balance at December 31, 2017 for long-term liabilities was:

(1,181,000)

Total Net Position of Governmental Activities

\$ (629,881)

CITY OF ROLETTE
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2017

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Hayhurst Manor	City Sales Tax	SID #2015-2		
REVENUES						
Taxes	\$ 91,140	\$ -	\$ -	\$ 1,836	\$ 12,583	\$ 105,559
Licenses, Permits, and Fees	8,082	-	-	-	-	8,082
Intergovernmental	108,729	-	92,095	-	-	200,824
Charges for Services	-	51,274	-	-	-	51,274
Fines and Forfeits	250	-	-	-	-	250
Interest Income	1,180	-	-	23	172	1,375
Miscellaneous	30,724	-	-	-	4,393	35,117
TOTAL REVENUES	240,105	51,274	92,095	1,859	17,148	402,481
EXPENDITURES						
Current:						
General Government	112,476	-	-	-	4,178	116,654
Public Safety	56,936	-	-	-	803	57,739
Public Works	57,665	-	21,087	-	1,890	80,642
Health and Welfare	1,460	33,401	-	-	-	34,861
Culture and Recreation	-	-	86,900	-	-	86,900
Economic Development	-	-	-	-	480	480
Street Project	-	-	-	1,253,085	-	1,253,085
Other	475	-	-	-	2,339	2,814
TOTAL EXPENDITURES	229,012	33,401	107,987	1,253,085	9,690	1,633,175
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,093	17,873	(15,892)	(1,251,226)	7,458	(1,230,694)
OTHER FINANCING SOURCES (USES)						
Other Proceeds	-	-	-	11,810	-	11,810
Grant Proceeds	-	-	-	813,107	-	813,107
Transfers In (Out)	(113,146)	56,460	-	-	(2,241)	(58,927)
TOTAL OTHER FINANCING SOURCES (USES)	(113,146)	56,460	-	824,917	(2,241)	765,990
NET CHANGE IN FUND BALANCES	(102,053)	74,333	(15,892)	(426,309)	5,217	(464,704)
Fund Balances - January 1, 2017	201,447	122,630	193,641	442,753	55,352	1,015,823
FUND BALANCES - DECEMBER 31, 2017	\$ 99,394	\$ 196,963	\$ 177,749	\$ 16,444	\$ 60,569	\$ 551,119

CITY OF ROLETTE

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund
Balances to the Statement of Activities - Modified Cash Basis
For the year ended December 31, 2017

Net change in *Fund Balances* - Total Governmental funds \$ (464,704)

The change in net position reported for governmental activities in the
statement of activities is the same.

Change in net position of governmental activities \$ (464,704)

CITY OF ROLETTE
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2017

	Business-type Activities - Enterprise Funds			
	Major Enterprise Funds			Totals
	Water	Sewer	Garbage	
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 155,265	\$ 106,175	\$ 180,164	\$ 441,604
Investments	156,558	-	14,426	170,984
TOTAL ASSETS	311,823	106,175	194,590	612,588
LIABILITIES				
Current Liabilities:				
Revenue Bonds Payable	-	6,000	-	6,000
Non-Current Liabilities:				
Revenue Bonds Payable	-	18,500	-	18,500
TOTAL LIABILITIES	-	24,500	-	24,500
NET POSITION				
Unrestricted	311,823	81,675	194,590	588,088
TOTAL NET POSITION	\$ 311,823	\$ 81,675	\$ 194,590	\$ 588,088

CITY OF ROLETTE
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
OPERATING REVENUES:				
Charges for Services	\$ 61,392	\$ 29,047	\$ 112,736	\$ 203,175
OPERATING EXPENSES:				
Salaries & Benefits	12,591	24,539	-	37,130
Utilities	4,426	2,011	-	6,437
Repairs & Maintenance	29,059	(6,900)	-	22,159
Garbage Contract	-	-	92,454	92,454
TOTAL OPERATING EXPENSES	<u>46,076</u>	<u>19,650</u>	<u>92,454</u>	<u>158,180</u>
INCOME (LOSS) FROM OPERATIONS	15,316	9,397	20,282	44,995
NON-OPERATING REVENUES (EXPENSES):				
County Taxes and Specials	11,513	11,044	10,280	32,837
Interest Income	1,428	-	79	1,507
Debt Service:				
Interest	-	(763)	-	(763)
Bank Service Charges	-	(137)	-	(137)
TOTAL NON-OPERATING REVENUES (EXPENSES):	<u>12,941</u>	<u>10,144</u>	<u>10,359</u>	<u>33,444</u>
NET INCOME (LOSS) BEFORE TRANSFERS	28,257	19,541	30,641	78,439
Transfers In (Out)	<u>58,927</u>	<u>-</u>	<u>-</u>	<u>58,927</u>
CHANGE IN NET POSITION	87,184	19,541	30,641	137,366
Net Position - January 1, 2017	<u>224,639</u>	<u>62,134</u>	<u>163,949</u>	<u>450,722</u>
NET POSITION - DECEMBER 31, 2017	<u>\$ 311,823</u>	<u>\$ 81,675</u>	<u>\$ 194,590</u>	<u>\$ 588,088</u>

CITY OF ROLETTE
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2017

	Business-type Activities - Enterprise Funds			
	Major Enterprise Funds			
	Water	Sewer	Garbage	Total
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 61,392	\$ 29,047	\$ 112,736	\$ 203,175
Payments to Suppliers	(33,485)	4,889	(92,454)	(121,050)
Payments to Employees	(12,591)	(24,539)	-	(37,130)
Net Cash Provided (Used) by Operating Activities	15,316	9,397	20,282	44,995
<u>Cash Flows from Noncapital Financing Activities:</u>				
Receipts from Taxes and Specials	11,513	11,044	10,279	32,836
Transfers (in) out	58,927	-	-	58,927
Net Cash Provided (Used) by Noncapital Financing Activities	70,440	11,044	10,279	91,763
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Long-Term Debt	-	(6,000)	-	(6,000)
Interest Paid	-	(763)	-	(763)
Bank Service Charges Paid	-	(137)	-	(137)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(6,900)	-	(6,900)
<u>Cash Flows from Investing Activities:</u>				
Certificates of Deposit Purchased	(58,927)	-	-	(58,927)
Net Cash Provided (Used) by Investing Activities	(58,927)	-	-	(58,927)
Net Increase in Cash and Cash Equivalents	26,829	13,541	30,561	70,931
Cash and Cash Equivalents, January 1, 2017	128,436	92,634	149,603	370,673
Cash and Cash Equivalents, December 31, 2017	<u>\$ 155,265</u>	<u>\$ 106,175</u>	<u>\$ 180,164</u>	<u>\$ 441,604</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Operating Income (Loss)	\$ 15,316	\$ 9,397	\$ 20,282	\$ 44,995
Net Cash Provided (Used) by Operating Activities	<u>\$ 15,316</u>	<u>\$ 9,397</u>	<u>\$ 20,282</u>	<u>\$ 44,995</u>

CITY OF ROLETTE
Statement of Fiduciary Assets and Liabilities
Modified Cash Basis - Fiduciary Funds
December 31, 2017

	<u>Agency Funds</u>
ASSETS	
Cash and Investments	<u>\$ 7,641</u>
Total Assets	<u>\$ 7,641</u>
LIABILITIES	
Due to Other Parties	<u>\$ 7,641</u>
Total Liabilities	<u>\$ 7,641</u>

CITY OF ROLETTE
Rolette, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Rolette, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City implemented the new reporting model, GASB Statement No. 34, beginning January 1, 2003. The more significant of the government's accounting policies are described below.

A. Reporting Entity

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

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

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, the component unit discussed below is included within the City's reporting entity because of the significance of its operational or financial relationship with the City.

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

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

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

B. Basis of Presentation

Government-wide Financial Statements:

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

CITY OF ROLETTE
Rolette, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Fund Financial Statements:

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

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

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

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

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

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

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

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

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

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

CITY OF ROLETTE
Rolette, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Additionally, the City reports the following fund types:

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

C. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

CITY OF ROLETTE
Rolette, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Deposits

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

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

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

As of December 31, 2017, the City's carrying balances (excluding the component unit and agency funds) were \$1,163,707. The bank balance of these deposits as of December 31, 2017 was \$1,110,048. Of the bank balances, \$250,000 was covered by Federal Depository Insurance; \$800,000 was collateralized with securities held by the pledging financial institutions' agent not in the City's name; the remaining balance is covered by a \$1,000,000 Excess Deposit Insurance Bond. During the fiscal year ended December 31, 2017, the board reviewed the pledge of securities semi-annually as required by state law.

Credit Risk: The City may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

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

CITY OF ROLETTE
Rolette, North Dakota
Notes to the Financial Statements
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Encumbrance Accounting

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

F. Long-Term Obligations

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

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

G. Interfund Transactions

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

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

H. Net Position

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

I. Fund Balance Classifications

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

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

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

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

CITY OF ROLETTE
 Rolette, North Dakota
 Notes to the Financial Statements
 December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.55 to 2.00 percent in 2017.

NOTE 3 PROPERTY TAXES

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

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

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

NOTE 4 LONG-TERM DEBT

Governmental Activities:	Balance 1/1/2017	Additions	Retirements	Balance 12/31/2017	Due Within One Year
Loans Payable - Interim Financing	\$ 1,181,000	\$ -	\$ 1,181,000	\$ -	\$ -
USDA Loan Payable	-	1,181,000	-	1,181,000	25,853
Total Governmental Activities	\$ 1,181,000	\$ 1,181,000	\$ 1,181,000	\$ 1,181,000	\$ 25,853

Outstanding debt for governmental activities at December 31, 2017 consists of the following issues:

\$1,181,000 Street Improvement Loan, due in annual installments of \$58,330 through June 12, 2047; interest at 2.75%	<u>\$ 1,181,000</u>
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CITY OF ROLETTE
 Rolette, North Dakota
 Notes to the Financial Statements
 December 31, 2017

NOTE 4 LONG-TERM DEBT – CONTINUED

Business-type Activities:	Balance			Balance 12/31/2017	Due Within One Year
	1/1/2017	Additions	Retirements		
Revenue Bonds	\$ 30,500	\$ -	\$ 6,000	\$ 24,500	\$ 6,000

Outstanding debt for business-type activities at December 31, 2017 consists of the following issue:

\$102,000 Waste Water Improvement Bonds of 2002, due in annual installments of \$4,000 to \$6,500 through September 1, 2021; interest at 2.5% \$ 24,500

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

Year Ending December 31	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 25,853	\$ 32,478	\$ 58,331	\$ 6,000	\$ 613	\$ 6,613
2019	26,563	31,767	58,330	6,000	462	6,462
2020	27,294	31,036	58,330	6,000	312	6,312
2021	28,045	30,285	58,330	6,500	162	6,662
2022	28,816	29,514	58,330	-	-	-
2023-2027	156,410	135,240	291,650	-	-	-
2028-2032	179,132	112,518	291,650	-	-	-
2033-2037	205,156	86,494	291,650	-	-	-
2038-2042	234,959	56,691	291,650	-	-	-
2043-2047	268,772	22,557	291,329	-	-	-
TOTAL	<u>\$ 1,181,000</u>	<u>\$ 568,580</u>	<u>\$ 1,749,580</u>	<u>\$ 24,500</u>	<u>\$ 1,549</u>	<u>\$ 26,049</u>

NOTE 5 RISK MANAGEMENT

The City of Rolette is exposed to various risks of loss relating to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues.

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

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

CITY OF ROLETTE
 Rolette, North Dakota
 Notes to the Financial Statements
 December 31, 2017

NOTE 5 RISK MANAGEMENT – CONTINUED

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

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

NOTE 6 LEGAL COMPLIANCE

For the year ended December 31, 2017, overall the General Fund total revenues were more than budgeted and expenditures were less than budgeted. Sales Tax expenditures were over budget. No remedial action is anticipated or required by the City regarding these excess expenditures.

NOTE 7 INTERFUND RECEIVABLES/PAYABLES

At December 31, 2017, interfund receivables and payables totaled \$33,167 because of the negative cash in the pooled accounts. Below is a summary of the interfund receivables and payables that are expected to be repaid within one year.

Fund	Receivable Amount	Payable Amount
General Fund	\$ 33,167	\$ -
City Housing Fund	-	33,167
Total	\$ 33,167	\$ 33,167

NOTE 8 INTERFUND TRANSFERS

At December 31, 2017, fund transfers consisted of the following:

Fund	Transfer In	Transfer Out
General		\$ 115,387
Water	\$ 58,927	
Hayhurst Manor	56,460	
<i>Transfer proceeds from sales of house.</i>		
General	2,241	
Social Security		284
Insurance Reserve		1,482
Advertising		475
<i>To close out funds to General</i>		
	\$ 117,628	\$ 117,628

CITY OF ROLETTE
 Rolette, North Dakota
 Notes to the Financial Statements
 December 31, 2017

NOTE 9 DEFICIT FUND BALANCES

At December 31, 2017, the City Housing Fund had a deficit fund balance of \$33,167.

NOTE 10 FUND BALANCES

At December 31, 2017, a summary of the governmental fund balance classifications are as follows:

	General Fund	Hayhurst Manor	City Sales Tax	SID #2015-2	Other Governmental Funds	Total
Restricted						
Street Projects	\$ -	\$ -	-	\$ 16,444	\$ 23,303	\$ 39,747
City Sales Tax	-	-	177,749	-	-	177,749
Library	-	-	-	-	9,433	9,433
Job Authority	-	-	-	-	8,515	8,515
Fire Levy	-	-	-	-	27,750	27,750
Assigned						
Hayhurst Manor	-	196,963	-	-	-	196,963
Scholarship	-	-	-	-	9,449	9,449
Cemetery	-	-	-	-	123	123
Airport Special Revenue	-	-	-	-	12,450	12,450
Construction	-	-	-	-	806	806
Emergency	-	-	-	-	1,907	1,907
Unassigned	99,394	-	-	-	(33,167)	66,227
	<u>\$ 99,394</u>	<u>\$ 196,963</u>	<u>\$ 177,749</u>	<u>\$ 16,444</u>	<u>\$ 60,569</u>	<u>\$ 551,119</u>

SUPPLEMENTARY INFORMATION

CITY OF ROLETTE
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 76,500	\$ 76,500	\$ 91,140	\$ 14,640
Licenses, Permits, and Fees	7,650	7,650	8,082	432
Intergovernmental	109,500	109,500	108,729	(771)
Fines and Forfeits	2,000	2,000	250	(1,750)
Interest Income	1,100	1,100	1,180	80
Miscellaneous	<u>26,000</u>	<u>26,000</u>	<u>30,724</u>	<u>4,724</u>
TOTAL REVENUES	<u>222,750</u>	<u>222,750</u>	<u>240,105</u>	<u>17,355</u>
EXPENDITURES				
Current:				
General Government	133,350	133,350	112,476	20,874
Public Safety	65,000	65,000	56,936	8,064
Public Works	130,000	130,000	57,665	72,335
Health and Welfare	1,500	1,500	1,460	40
Other	<u>20,000</u>	<u>20,000</u>	<u>475</u>	<u>19,525</u>
TOTAL EXPENDITURES	<u>349,850</u>	<u>349,850</u>	<u>229,012</u>	<u>120,838</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(127,100)	(127,100)	11,093	138,193
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(113,146)</u>	<u>(113,146)</u>
NET CHANGE IN FUND BALANCES	(127,100)	(127,100)	(102,053)	25,047
Fund Balances - January 1, 2017	<u>201,447</u>	<u>201,447</u>	<u>201,447</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2017	<u>\$ 74,347</u>	<u>\$ 74,347</u>	<u>\$ 99,394</u>	<u>\$ 25,047</u>

CITY OF ROLETTE
 Budgetary Comparison Schedule - Modified Cash Basis
 Hayhurst Manor Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for Services	\$ 37,200	\$ 37,200	\$ 51,274	\$ 14,074
TOTAL REVENUES	37,200	37,200	51,274	14,074
EXPENDITURES				
Current:				
Health and Welfare	<u>20,276</u>	<u>20,276</u>	<u>33,401</u>	<u>(13,125)</u>
TOTAL EXPENDITURES	<u>20,276</u>	<u>20,276</u>	<u>33,401</u>	<u>(13,125)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,924	16,924	17,873	949
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>56,460</u>	<u>56,460</u>
NET CHANGE IN FUND BALANCES	16,924	16,924	74,333	57,409
Fund Balances - January 1, 2017	<u>122,630</u>	<u>122,630</u>	<u>122,630</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2017	<u>\$ 139,554</u>	<u>\$ 139,554</u>	<u>\$ 196,963</u>	<u>\$ 57,409</u>

CITY OF ROLETTE
 Budgetary Comparison Schedule - Modified Cash Basis
 City Sales Tax Fund
 For the year ended December 31, 2017

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 94,000	\$ 94,000	\$ 92,095	\$ (1,905)
TOTAL REVENUES	94,000	94,000	92,095	(1,905)
EXPENDITURES				
Current:				
Public Works	37,500	37,500	21,087	16,413
Culture and Recreation	<u>37,500</u>	<u>37,500</u>	<u>86,900</u>	<u>(49,400)</u>
TOTAL EXPENDITURES	<u>75,000</u>	<u>75,000</u>	<u>107,987</u>	<u>(32,987)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	19,000	19,000	(15,892)	(34,892)
Fund Balances - January 1, 2017	<u>193,641</u>	<u>193,641</u>	<u>193,641</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2017	<u>\$ 212,641</u>	<u>\$ 212,641</u>	<u>\$ 177,749</u>	<u>\$ (34,892)</u>

City of Rolette
Notes to Supplementary Information
December 31, 2017

NOTE 1 BUDGETS

The City adopts a budget on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The budget is presented for the general fund and the major special revenue funds. The city council is required to present the adopted and final amended budgeted receipts and disbursements for these funds.

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

- The City Auditor prepares a preliminary budget for the general, special revenue, and debt service funds on the modified cash basis of accounting. The preliminary budget includes proposed expenditures and the means of financing them.
- The governing body reviews the preliminary budget, may make revisions and approves it on or before September 10.
- On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget.
- The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10.
- Except as provided by state law, no municipal expenditures shall be made nor liability incurred, and no bill shall be paid for any purpose in excess of the appropriation made in the final budget (as may be amended). Expenditures made, liabilities incurred, or warrants issued in excess of the appropriations shall be a joint and several liability of the members of the governing body who authorized the making, incurring, or issuing of the obligations or were present when they were authorized and did not vote against the authorization.
- The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared except no amendment changing taxes levied can be made after October 10.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

City of Rolette
 Schedule of Expenditures of Federal Awards
 For the year ended December 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>			
<u>Rural Utilities Service</u>			
Water and Waste Disposal System for Rural Communities	10.760	N/A	<u>\$ 1,253,085</u>
Total U.S. Department of Agriculture			<u>1,253,085</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,253,085</u></u>

City of Rolette
Notes to Schedule of Expenditures of Federal Awards
For the Year Ending December 31, 2017

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. According, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. City of Rolette received no nonmonetary federal assistance during the year ended December 31, 2017. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the modified cash basis of accounting.

E. Elections

The City has not elected to use the 10 percent de minimis indirect cost rate.

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

Governing Board
City of Rolette
Rolette, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Rolette, North Dakota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Rolette's basic financial statements and have issued our report thereon dated February 18, 2021.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2017-001 through 2017-004 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

City of Rolette, North Dakota's Response to Findings

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

Purpose of this Report

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

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
February 18, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
City of Rolette
Rolette, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Rolette, Rolette, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Rolette's major federal programs for the year ended December 31, 2017. City of Rolette's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Rolette's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Rolette's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Rolette's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Rolette complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Internal Control over Compliance

Management of City of Rolette, Rolette, North Dakota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Rolette's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Rolette's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We have identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-005 that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

City of Rolette's Response to Findings

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
February 18, 2021

CITY OF ROLETTE
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	
Governmental Activities	Adverse
Business-Type Activities	Adverse
Discretely Presented Component Unit	Adverse
Major Business-Type Funds	Adverse
Major Governmental Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weaknesses identified?	Yes
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified?	Yes
Significant deficiencies identified?	No
Type of auditor's report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516 (a)?	Yes

Identification of major programs:

 10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

CITY OF ROLETTE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Section II - Financial Statement Findings

Finding 2017-001: Segregation of Duties

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

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

Cause – There are limited individuals to perform tasks due to the small size of the entity.

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

Recommendation – The Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Council's knowledge of matters relating to the entity's operations. Additional staffing would alleviate the limitations.

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

Indication of Repeat Finding: This is a repeat of finding 2016-001.

Finding 2017-002: Capital Asset Records

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

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

Cause – The City of Rolette has no system in place to maintain capital assets records, the related depreciation and no historical cost of assets to create a complete accounting record.

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

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

Management’s Response – The City is aware of this issue and will work to establish a complete capital asset listing. A capital asset policy was adopted in late 2015.

Indication of Repeat Finding: This is a repeat of finding 2016-002.

CITY OF ROLETTE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Finding 2017-003: Preparation of Financial Statements

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

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

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

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

Recommendation – The Council should review the audited financial statements for accuracy and accept responsibility for the preparation and fair presentation of the *Governmental Accounting Standards Board* financial statements even if the auditor assisted in drafting the financial statements and notes.

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

Indication of Repeat Finding: This is a repeat of finding 2016-003.

Finding 2017-004: Journal Entries

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

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The classification of transactions are not properly monitored.

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

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

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

Indication of Repeat Finding: This is a repeat of finding 2016-004.

CITY OF ROLETTE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Section III – Federal Award Findings and Questioned Costs

Finding 2017-005: SFSAC Submission

Condition – The Office of Management and Budget (OMB) Title 2 Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) 2 CFR 200.512 requires auditees to submit a completed form SFSAC, along with one complete reporting package, to the Federal Audit Clearinghouse. The reporting package as defined in 2 CFR 200.512(c). The audit shall be electronically transmitted within the earlier of 30 days after receipt of the auditor’s reports, or nine months after the end of the audit period.

Criteria – The City did not file the December 2017, data collection form within the prescribed timeframe set forth by the Office of Management and Budget.

Cause – The audit for fiscal year ended December 31, 2017 was not completed until February 18, 2021.

Effect – The City cannot be considered a low risk auditee for the year ended December 31, 2017.

Recommendation – Ensure that the audit is completed in time for the submission deadline in future audit years.

Management’s Response – The City is aware of the importance of filing the data collection forms within the prescribed amount of time and will work to the reports on a timely basis.

Indication of Repeat Finding: This is a new finding for fiscal year 2017.

CITY OF ROLETTE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Section IV – Prior Audit Findings

Finding 2016-001: Segregation of Duties

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

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

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

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

Current Status – This is repeated as finding 2017-001.

Finding 2016-002: Capital Asset Records

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

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

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

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

Current Status – This finding is repeated as finding 2017-002.

Finding 2016-003: Preparation of Financial Statements

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

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

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

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

Current Status – This finding is repeated as finding 2017-003.

CITY OF ROLETTE
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2017

Finding 2016-004: Journal Entries

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

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The classification of transactions are not properly monitored.

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

Current Status – This finding is repeated as finding 2017-004.

Finding 2016-005: Deposits

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

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

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

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

Current Status – Additional coverage was provided by the bank in the form of an excess deposit insurance bond. All funds were adequately covered in 2017.