



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, 2019 and 2018

Client Code: PS8140



Photo credit: North Dakota Tourism



Office of the
State Auditor

CITY OF LINCOLN

Table of Contents

For the Years Ended December 31, 2019 and 2018

City Officials	1
Independent Auditor's Report	2
Basic Financial Statements	
2019 Statements	
Statement of Net Position – Modified Cash Basis.....	5
Statement of Activities – Modified Cash Basis.....	6
Balance Sheet - Governmental Funds – Modified Cash Basis	7
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	8
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	9
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the	
Statement of Activities – Modified Cash Basis	10
Statement of Net Position - Proprietary Funds – Modified Cash Basis.....	11
Statement of Revenues, Expenses, and Changes in Fund Net Position –	
Proprietary Funds – Modified Cash Basis	12
Statement of Cash Flows - Proprietary Funds – Modified Cash Basis	13
2018 Statements	
Statement of Net Position – Modified Cash Basis.....	14
Statement of Activities – Modified Cash Basis.....	15
Balance Sheet - Governmental Funds – Modified Cash Basis	16
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	17
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	18
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the	
Statement of Activities – Modified Cash Basis	19
Statement of Net Position - Proprietary Funds – Modified Cash Basis.....	20
Statement of Revenues, Expenses, and Changes in Fund Net Position –	
Proprietary Funds – Modified Cash Basis	21
Statement of Cash Flows - Proprietary Funds – Modified Cash Basis	22
Notes to the Financial Statements	23
Supplementary Information	
Budgetary Comparison Schedules	38
Notes to the Supplementary Information	42
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	43
Summary of Auditor's Results.....	45
Schedule of Audit Findings	46
Governance Communication	56

CITY OF LINCOLN

City Officials

December 31, 2019 and 2018

CITY OFFICIALS

As of December 31, 2019

Hayley Akre	President
Brandon Schock	Commissioner
Cole Schantz	Commissioner
Tom Volk	Commissioner
Gerard Wise	Mayor
Shawn Surface	City Auditor

As of December 31, 2018

Brandon Schock	President
Hayley Akre	Commissioner
Tom Volk	Commissioner
Erv Fischer	Commissioner
Gerard Wise	Mayor
Shawn Surface	City Auditor

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave., Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

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 year ended December 31, 2018, and the related notes to the financial statements, and we were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Lincoln, North Dakota, as of and for the year ended December 31, 2019, 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.

Except for the matter described in the Basis for Disclaimer of Opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	2019	2018
Governmental Activities	Disclaimer	Unmodified
Business-Type Activities	Disclaimer	Qualified
Major Funds		
General Fund	Disclaimer	Unmodified
Special Revenue Fund	Disclaimer	Unmodified
Debt Service Fund	Disclaimer	Unmodified
Water Fund	Disclaimer	Qualified
Sewer Fund	Disclaimer	Qualified
Garbage Fund	Disclaimer	Qualified
Aggregate Remaining Fund Information	Disclaimer	Qualified

Basis for Disclaimer of Opinion for 2019

The City of Lincoln did not maintain adequate accounting records to provide sufficient information for the preparation of financial statements for 2019 including the following:

- Material differences were noted between the City of Lincoln's bank reconciliation and general ledger. The general ledger cash amounts for December 31, 2019, were lower than the bank reconciliation cash by a net difference of \$118,634.

Disclaimer Opinion

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion for 2019* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the governmental activities, business-type activities, major funds, and aggregate remaining fund information for the year ended December 31, 2019. Accordingly, we do not express an opinion on the governmental activities, business-type activities, major funds, and aggregate remaining fund information of the City of Lincoln for the year ended December 31, 2019.

Basis for Qualified Opinion on 2018 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 for 2018. 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 \$1,562,328.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on 2018 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, 2018, 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 year ended December 31, 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln's basic financial statements. The *budgetary comparison schedules and notes to the supplementary information* are presented for purposes of additional analysis and are not a required part of the basic 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 2018 *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. Because of the significance of the matter described above in the *Basis for Disclaimer of Opinion for 2019* paragraph, it is inappropriate to, and we do not express an opinion on the 2019 supplementary information referred to above.

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, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 1,632,183	\$ 2,511,084	\$ 4,143,267
Capital Assets, Net	3,273,174	2,357,093	5,630,267
Total Assets	\$ 4,905,357	\$ 4,868,177	\$ 9,773,534
LIABILITIES			
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	\$ -	\$ 52,000	\$ 52,000
Due After One Year			
Long-Term Debt	-	729,291	729,291
Total Liabilities	\$ -	\$ 781,291	\$ 781,291
NET POSITION			
Net Investment in Capital Assets	\$ 3,273,174	\$ 1,575,802	\$ 4,848,976
Restricted			
Debt Service	602,854	-	602,854
General Government	227,948	-	227,948
Public Safety	18,071	-	18,071
Public Works	171,214	-	171,214
Emergencies	90,000	-	90,000
Culture and Recreation	67,273	-	67,273
Unrestricted	454,823	2,511,084	2,965,907
Total Net Position	\$ 4,905,357	\$ 4,086,886	\$ 8,992,243

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, 2019

	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	\$ 587,358	\$ 116,123	\$ -	\$ -	\$ (471,235)		\$ (471,235)
Public Safety	591,348	-	-	-	(591,348)		(591,348)
Public Works	194,845	-	170,187	49,387	24,730		24,730
Culture and Recreation	3,812	-	-	-	(3,812)		(3,812)
Interest & Fees on Long-Term Debt	7,125	-	-	-	(7,125)		(7,125)
Total Governmental Activities	\$ 1,384,487	\$ 116,123	\$ 170,187	\$ 49,387	\$ (1,048,790)		\$ (1,048,790)
Business-Type Activities							
Water	\$ 697,311	\$ 844,846	\$ 43,312	\$ 1,017,437		\$ 1,208,284	\$ 1,208,284
Sewer	335,360	288,853	-	-		(46,507)	(46,507)
Garbage	396,799	367,560	-	-		(29,239)	(29,239)
Non Major	35,538	44,925	-	-		9,387	9,387
Total Business-Type Activities	\$ 1,465,008	\$ 1,546,184	\$ 43,312	\$ 1,017,437	\$ -	\$ 1,141,925	\$ 1,132,539
Total Primary Government	\$ 2,849,496	\$ 1,662,307	\$ 213,500	\$ 1,066,824	\$ (1,048,790)	\$ 1,141,925	\$ 83,749
GENERAL REVENUES							
Property Taxes					\$ 825,041	\$ -	\$ 825,041
Sales Taxes					116,298	-	116,298
Non-Restricted Grants and Contributions					316,583	-	316,583
Unrestricted Investment Earnings					56,707	-	56,707
Miscellaneous					1,620	31,113	32,733
Total General Revenues and Transfers					\$ 1,316,249	\$ 31,113	\$ 1,347,363
Changes in Net Position					\$ 267,459	\$ 1,173,039	\$ 1,440,498
Net Position - January 1					\$ 4,637,898	\$ 2,913,847	\$ 7,551,745
Net Position - December 31					\$ 4,905,357	\$ 4,086,886	\$ 8,992,243

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, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 450,437	\$ 574,506	\$ 607,240	\$ 1,632,183
Due from Other Funds	4,386	-	-	4,386
Total Assets	<u>\$ 454,823</u>	<u>\$ 574,506</u>	<u>\$ 607,240</u>	<u>\$ 1,636,569</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	\$ -	\$ -	\$ 602,854	\$ 602,854
General Government	-	227,948	-	227,948
Public Safety	-	18,071	-	18,071
Public Works/Streets	-	171,214	-	171,214
Emergency	-	90,000	-	90,000
Culture & Recreation	-	67,273	-	67,273
Unassigned				
General Fund	454,823	-	-	454,823
Total Fund Balances	<u>\$ 454,823</u>	<u>\$ 574,506</u>	<u>\$ 602,854</u>	<u>\$ 1,632,183</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 454,823</u>	<u>\$ 574,506</u>	<u>\$ 607,240</u>	<u>\$ 1,636,569</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, 2019

Total <i>Fund Balances</i> for Governmental Funds	\$ 1,632,183
--	--------------

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.

<u>3,288,174</u>

Total Net Position of Governmental Activities	<u><u>\$ 4,920,357</u></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, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 702,007	\$ 66,657	\$ 56,377	\$ 825,041
Special Assessment Taxes	-	-	49,387	49,387
Sales Taxes	-	116,298	-	116,298
Licenses, Permits and Fees	84,587	-	-	84,587
Charges for Services	31,536	-	-	31,536
Intergovernmental	316,583	170,187	-	486,771
Interest	56,707	-	-	56,707
Miscellaneous	1,620	-	-	1,620
Total Revenues	\$ 1,193,040	\$ 353,143	\$ 105,764	\$ 1,651,947
EXPENDITURES				
Current				
General Government	\$ 538,820	\$ 35,863	\$ -	\$ 574,684
Public Safety	604,769	-	-	604,769
Public Works	-	195,880	-	195,880
Culture and Recreation	-	3,812	-	3,812
Capital Outlay	-	782,063	-	782,063
Debt Service				
Principal	-	-	125,000	125,000
Interest	-	-	5,725	5,725
Fees	-	-	1,400	1,400
Total Expenditures	\$ 1,143,590	\$ 1,017,618	\$ 132,125	\$ 2,293,332
Excess (Deficiency) of Revenues Over Expenditures	\$ 49,450	\$ (664,475)	\$ (26,361)	\$ (641,386)
Net Change in Fund Balances	\$ 49,450	\$ (664,475)	\$ (26,361)	\$ (641,386)
Fund Balance - January 1	\$ 405,373	\$ 1,238,980	\$ 629,215	\$ 2,273,568
Fund Balance - December 31	\$ 454,823	\$ 574,506	\$ 602,854	\$ 1,632,183

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, 2019

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ (641,386)
--	---------------------

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	\$ 955,591	
Current Year Depreciation Expense	<u>(171,746)</u>	783,845

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>125,000</u>
-----------------------------	----------------

Change in Net Position of Governmental Activities	<u>\$ 267,459</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, 2019

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
ASSETS					
Current Assets					
Cash and Investments	\$ 1,229,641	\$ 1,122,475	\$ 112,852	\$ 46,115	\$ 2,511,084
Total Current Assets	\$ 1,229,641	\$ 1,122,475	\$ 112,852	\$ 46,115	\$ 2,511,084
Noncurrent Assets					
Capital Assets, Net	\$ 2,173,698	\$ 175,090	\$ 8,305	\$ -	\$ 2,357,093
Total Assets	\$ 3,403,339	\$ 1,297,565	\$ 121,157	\$ 46,115	\$ 4,868,177
LIABILITIES					
Current Liabilities					
Long-Term Debt	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Total Current Liabilities	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Noncurrent Liabilities					
Long-Term Debt	\$ 729,291	\$ -	\$ -	\$ -	\$ 729,291
Total Liabilities	\$ 781,291	\$ -	\$ -	\$ -	\$ 781,291
NET POSITION					
Net Investment in Capital Assets	\$ 1,392,407	\$ 175,090	\$ 8,305	\$ -	\$ 1,575,802
Unrestricted	1,229,641	1,122,475	112,852	46,115	2,511,084
Total Net Position	\$ 2,622,048	\$ 1,297,565	\$ 121,157	\$ 46,115	\$ 4,086,886

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, 2019

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
OPERATING REVENUES					
Charges for Services	\$ 844,846	\$ 288,853	\$ 367,560	\$ 44,925	\$ 1,546,184
Miscellaneous	8,267	7,456	8,044	7,347	31,113
Total Operating Revenues	<u>\$ 853,113</u>	<u>\$ 296,309</u>	<u>\$ 375,604</u>	<u>\$ 52,272</u>	<u>\$ 1,577,298</u>
OPERATING EXPENSES					
Salaries and wages	\$ 120,479	\$ 70,109	\$ 36,864	\$ -	\$ 227,452
Health Insurance	18,799	10,660	5,458	-	34,917
Retirement	10,233	5,966	3,138	-	19,337
Unemployment	142	93	37	-	272
Legal Fees	-	167,166	-	-	167,166
Engineering Fees	8,371	4,671	-	-	13,042
Professional Fees	485	-	-	-	485
Training/Computer Support	-	250	-	-	250
Utilities	11,333	5,338	-	-	16,671
Meter Parts	127	-	-	-	127
Supplies	1,012	3,976	-	-	4,988
Repair/Maintenance	29,455	25,787	-	-	55,242
Office Supplies	6,706	2,980	2,782	873	13,341
Gas, Oil, Diesel Fuel	1,551	1,639	1,551	-	4,741
Machinery & Equipment	5,159	18,318	13,065	-	36,542
Miscellaneous Expense	3,805	-	-	8	3,814
Bismarck Water	451,120	-	-	-	451,120
Water Testing	3,029	-	-	-	3,029
Garbage	-	-	332,902	-	332,902
Street Lighting	-	-	-	34,656	34,656
Depreciation	21,976	18,407	1,001	-	41,384
Total Operating Expenses	<u>\$ 693,781</u>	<u>\$ 335,360</u>	<u>\$ 396,799</u>	<u>\$ 35,538</u>	<u>\$ 1,461,478</u>
Operating Income	<u>\$ 159,332</u>	<u>\$ (39,051)</u>	<u>\$ (21,195)</u>	<u>\$ 16,734</u>	<u>\$ 115,819</u>
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	\$ 1,060,749	\$ -	\$ -	\$ -	\$ 1,060,749
Interest Expense and Service Charges	(3,530)	-	-	-	(3,530)
Total Nonoperating Revenues (Expenses)	<u>\$ 1,057,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,057,219</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 1,216,551</u>	<u>\$ (39,051)</u>	<u>\$ (21,195)</u>	<u>\$ 16,734</u>	<u>\$ 1,173,039</u>
Transfers In	\$ 19,530	\$ -	\$ -	\$ -	\$ 19,530
Transfers Out	(19,530)	-	-	-	(19,530)
Change in Net Position	<u>\$ 1,216,551</u>	<u>\$ (39,051)</u>	<u>\$ (21,195)</u>	<u>\$ 16,734</u>	<u>\$ 1,173,039</u>
Net Position - January 1	<u>\$ 1,405,498</u>	<u>\$ 1,336,617</u>	<u>\$ 142,352</u>	<u>\$ 29,381</u>	<u>\$ 2,913,848</u>
Net Position - December 31	<u>\$ 2,622,049</u>	<u>\$ 1,297,565</u>	<u>\$ 121,157</u>	<u>\$ 46,115</u>	<u>\$ 4,086,886</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, 2019

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 844,846	\$ 288,853	\$ 367,560	\$ 44,925	\$ 1,546,184
Payments to Suppliers	(522,154)	(230,124)	(350,300)	(35,538)	(1,138,117)
Payments to Employees	(149,652)	(86,829)	(45,498)	-	(281,978)
Other Receipts	8,267	7,456	8,044	7,347	31,113
Net Cash Provided (Used) by Operating Activities	\$ 181,308	\$ (20,644)	\$ (20,194)	\$ 16,734	\$ 157,203
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	\$ 19,530	\$ -	\$ -	\$ -	\$ 19,530
Operating Grant	43,312	-	-	-	43,312
Transfers Out	(19,530)	-	-	-	(19,530)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 43,312	\$ -	\$ -	\$ -	\$ 43,312
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital Contributions	\$ 1,017,437	\$ -	\$ -	\$ -	\$ 1,017,437
Purchases and Construction of Capital Assets	(1,929,770)	-	-	-	(1,929,770)
Bond Proceeds	678,291	-	-	-	678,291
Principal Paid on Capital Debt	(16,000)	-	-	-	(16,000)
Interest and Fees Paid on Capital Debt	(3,530)	-	-	-	(3,530)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (253,572)	\$ -	\$ -	\$ -	\$ (253,572)
Net Increase (Decrease) in Cash & Cash Equivalents	\$ (28,952)	\$ (20,644)	\$ (20,194)	\$ 16,734	\$ (53,056)
Cash and Cash Equivalents - January 1	\$ 1,258,594	\$ 1,143,120	\$ 133,046	\$ 29,381	\$ 2,564,140
Cash and Cash Equivalents - December 31	\$ 1,229,641	\$ 1,122,475	\$ 112,852	\$ 46,115	\$ 2,511,084
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 159,332	\$ (39,051)	\$ (21,195)	\$ 16,734	\$ 115,819
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	\$ 21,976	\$ 18,407	\$ 1,001	\$ -	\$ 41,384
Net Cash Provided (Used) by Operating Activities	\$ 181,308	\$ (20,644)	\$ (20,194)	\$ 16,734	\$ 157,203

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, 2018

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash and Investments	\$ 2,273,568	\$ 2,564,140	\$ 4,837,709
Capital Assets, Net	2,489,330	468,707	2,958,037
Total Assets	\$ 4,762,898	\$ 3,032,847	\$ 7,795,745
LIABILITIES			
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	\$ 10,000	\$ 16,000	\$ 26,000
Due After One Year			
Long-Term Debt	115,000	103,000	218,000
Total Liabilities	\$ 125,000	\$ 119,000	\$ 244,000
NET POSITION			
Net Investment in Capital Assets	\$ 2,364,330	\$ 349,707	\$ 2,714,037
Restricted			
Debt Service	629,215	-	629,215
General Government	104,041	-	104,041
Public Safety	18,071	-	18,071
Public Works	978,969	-	978,969
Emergencies	90,000	-	90,000
Culture and Recreation	47,899	-	47,899
Unrestricted	405,373	2,564,140	2,969,513
Total Net Position	\$ 4,637,898	\$ 2,913,847	\$ 7,551,745

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, 2018

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business- Type Activities	Total
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 799,509	\$ 119,560	\$ -	\$ -	\$ (679,949)		\$ (679,949)
Public Safety	508,102	-	-	-	(508,102)		(508,102)
Public Works	134,665	-	159,835	55,071	80,241		80,241
Culture and Recreation	12,887	-	1,567	-	(11,319)		(11,319)
Interest & Fees on Long-Term Debt	7,307	-	-	-	(7,307)		(7,307)
Total Governmental Activities	\$ 1,462,469	\$ 119,560	\$ 161,402	\$ 55,071	\$ (1,126,435)		\$ (1,126,435)
Business-Type Activities							
Water	\$ 654,851	\$ 852,460	\$ -	\$ -		\$ 197,609	\$ 197,609
Sewer	156,422	308,208	-	-		151,786	151,786
Garbage	354,608	351,531	-	-		(3,077)	(3,077)
Non Major	35,898	45,134	-	-		9,235	9,235
Total Business-Type Activities	\$ 1,201,779	\$ 1,557,332	\$ -	\$ -	\$ -	\$ 355,553	\$ 346,318
Total Primary Government	\$ 2,664,248	\$ 1,676,893	\$ 161,402	\$ 55,071	\$ (1,126,435)	\$ 355,553	\$ (780,117)
GENERAL REVENUES							
Property Taxes					\$ 787,928	\$ -	\$ 787,928
Sales Taxes					57,136	-	57,136
Non-Restricted Grants and Contributions					276,008	-	276,008
Unrestricted Investment Earnings					39,611	-	39,611
Miscellaneous					-	4,995	4,995
Total General Revenues and Transfers					\$ 1,160,684	\$ 4,995	\$ 1,165,679
Changes in Net Position					\$ 34,248	\$ 360,549	\$ 394,797
Net Position - January 1					\$ 4,603,650	\$ 2,553,298	\$ 7,156,948
Net Position - December 31					\$ 4,637,898	\$ 2,913,847	\$ 7,551,745

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, 2018

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 400,987	\$ 1,238,980	\$ 633,601	\$ 2,273,568
Due from Other Funds	4,386	-	-	4,386
Total Assets	<u>\$ 405,373</u>	<u>\$ 1,238,980</u>	<u>\$ 633,601</u>	<u>\$ 2,277,954</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	\$ -	\$ -	\$ 629,215	\$ 629,215
General Government	-	104,041	-	104,041
Public Safety	-	18,071	-	18,071
Public Works/Streets	-	978,969	-	978,969
Emergency	-	90,000	-	90,000
Culture & Recreation	-	47,899	-	47,899
Unassigned				
General Fund	405,373	-	-	405,373
Total Fund Balances	<u>\$ 405,373</u>	<u>\$ 1,238,980</u>	<u>\$ 629,215</u>	<u>\$ 2,273,568</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 405,373</u>	<u>\$ 1,238,980</u>	<u>\$ 633,601</u>	<u>\$ 2,277,954</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, 2018

Total <i>Fund Balances</i> for Governmental Funds	\$ 2,273,568
--	---------------------

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.	2,489,330
---	-----------

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>\$ (125,000)</u>
----------------	---------------------

Total Net Position of Governmental Activities	<u>\$ 4,637,898</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, 2018

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 662,087	\$ 67,413	\$ 58,428	\$ 787,928
Special Assessment Taxes	-	-	55,071	55,071
Sales Taxes	-	57,136	-	57,136
Licenses, Permits and Fees	53,241	-	-	53,241
Charges for Services	66,320	-	-	66,320
Intergovernmental	276,008	161,402	-	437,411
Interest	39,611	-	-	39,611
Total Revenues	\$ 1,097,267	\$ 285,951	\$ 113,499	\$ 1,496,717
EXPENDITURES				
Current				
General Government	\$ 721,111	\$ 65,724	\$ -	\$ 786,835
Public Safety	458,900	33,644	-	492,544
Public Works	-	206,642	-	206,642
Culture and Recreation	-	12,887	-	12,887
Debt Service				
Principal	-	-	10,000	10,000
Interest	-	-	6,150	6,150
Fees	-	-	1,157	1,157
Total Expenditures	\$ 1,180,011	\$ 318,896	\$ 17,307	\$ 1,516,214
Excess (Deficiency) of Revenues Over Expenditures	\$ (82,744)	\$ (32,945)	\$ 96,192	\$ (19,497)
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ 8,100	\$ -	\$ 8,100
Transfers Out	(8,100)	-	-	(8,100)
Total Other Financing Sources and Uses	\$ (8,100)	\$ 8,100	\$ -	\$ -
Net Change in Fund Balances	\$ (90,844)	\$ (24,845)	\$ 96,192	\$ (19,497)
Fund Balance - January 1	\$ 496,217	\$ 1,263,826	\$ 533,023	\$ 2,293,065
Fund Balance - December 31	\$ 405,373	\$ 1,238,980	\$ 629,215	\$ 2,273,568

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, 2018

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ (19,497)
--	--------------------

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	\$ 202,673	
Current Year Depreciation Expense	<u>(158,928)</u>	43,745

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>10,000</u>
-----------------------------	---------------

Change in Net Position of Governmental Activities	<u>\$ 34,248</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, 2018

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
ASSETS					
Current Assets					
Cash and Investments	\$ 1,258,594	\$ 1,143,120	\$ 133,046	\$ 29,381	\$ 2,564,140
Total Current Assets	\$ 1,258,594	\$ 1,143,120	\$ 133,046	\$ 29,381	\$ 2,564,140
Noncurrent Assets					
Capital Assets, Net	\$ 265,904	\$ 193,497	\$ 9,306	\$ -	\$ 468,707
Total Assets	\$ 1,524,497	\$ 1,336,617	\$ 142,352	\$ 29,381	\$ 3,032,847
LIABILITIES					
Current Liabilities					
Long-Term Debt	\$ 16,000	\$ -	\$ -	\$ -	\$ 16,000
Total Current Liabilities	\$ 16,000	\$ -	\$ -	\$ -	\$ 16,000
Noncurrent Liabilities					
Long-Term Debt	\$ 103,000	\$ -	\$ -	\$ -	\$ 103,000
Total Liabilities	\$ 119,000	\$ -	\$ -	\$ -	\$ 119,000
NET POSITION					
Net Investment in Capital Assets	\$ 146,904	\$ 193,497	\$ 9,306	\$ -	\$ 349,707
Unrestricted	1,258,594	1,143,120	133,046	29,381	2,564,140
Total Net Position	\$ 1,405,497	\$ 1,336,617	\$ 142,352	\$ 29,381	\$ 2,913,847

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, 2018

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
OPERATING REVENUES					
Charges for Services	\$ 852,460	\$ 308,208	\$ 351,531	\$ 45,134	\$ 1,557,332
Miscellaneous	3,070	728	1,061	136	4,995
Total Operating Revenues	<u>\$ 855,530</u>	<u>\$ 308,935</u>	<u>\$ 352,593</u>	<u>\$ 45,270</u>	<u>\$ 1,562,328</u>
OPERATING EXPENSES					
Salaries and wages	\$ 104,876	\$ 52,528	\$ 34,823	\$ -	\$ 192,227
Health Insurance	16,413	7,813	5,081	-	29,307
Retirement	387	198	133	-	717
Unemployment	442	270	107	-	820
Engineering Fees	23,402	27,505	-	-	50,907
Professional Fees	2,587	-	-	-	2,587
Training/Computer Support	-	138	-	-	138
Utilities	11,491	4,679	-	-	16,170
Meter Parts	815	-	-	-	815
Supplies	2,484	1,978	-	-	4,463
Repair/Maintenance	17,022	30,969	-	-	47,991
Office Supplies	5,828	2,383	2,617	536	11,364
Gas, Oil, Diesel Fuel	1,220	1,220	1,220	-	3,660
Machinery & Equipment	7,544	8,336	15,000	-	30,880
Miscellaneous Expense	-	-	-	13	13
Bismarck Water	428,848	-	-	-	428,848
Water Testing	3,533	-	-	-	3,533
Garbage	-	-	294,625	-	294,625
Street Lighting	-	-	-	35,349	35,349
Depreciation	23,974	18,407	1,001	-	43,382
Total Operating Expenses	<u>\$ 650,868</u>	<u>\$ 156,422</u>	<u>\$ 354,608</u>	<u>\$ 35,898</u>	<u>\$ 1,197,797</u>
Operating Income	<u>\$ 204,661</u>	<u>\$ 152,513</u>	<u>\$ (2,016)</u>	<u>\$ 9,372</u>	<u>\$ 364,531</u>
NONOPERATING REVENUES (EXPENSES)					
Interest Expense and Service Charges	\$ (3,983)	\$ -	\$ -	\$ -	\$ (3,983)
Total Nonoperating Revenues (Expenses)	<u>\$ (3,983)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,983)</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 200,679</u>	<u>\$ 152,513</u>	<u>\$ (2,016)</u>	<u>\$ 9,372</u>	<u>\$ 360,549</u>
Transfers In	\$ 18,983	\$ -	\$ -	\$ -	\$ 18,983
Transfers Out	(18,983)	-	-	-	(18,983)
Change in Net Position	<u>\$ 200,679</u>	<u>\$ 152,513</u>	<u>\$ (2,016)</u>	<u>\$ 9,372</u>	<u>\$ 360,549</u>
Net Position - January 1	<u>\$ 1,204,819</u>	<u>\$ 1,184,103</u>	<u>\$ 144,368</u>	<u>\$ 20,009</u>	<u>\$ 2,553,298</u>
Net Position - December 31	<u>\$ 1,405,498</u>	<u>\$ 1,336,617</u>	<u>\$ 142,352</u>	<u>\$ 29,381</u>	<u>\$ 2,913,847</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, 2018

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 852,460	\$ 308,208	\$ 351,531	\$ 45,134	\$ 1,557,332
Payments to Suppliers	(504,776)	(77,207)	(313,463)	(35,898)	(931,344)
Payments to Employees	(122,118)	(60,808)	(40,145)	-	(223,071)
Other Receipts	3,070	728	1,061	136	4,995
Net Cash Provided (Used) by Operating Activities	\$ 228,635	\$ 170,920	\$ (1,015)	\$ 9,372	\$ 407,913
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	\$ 18,983	\$ -	\$ -	\$ -	\$ 18,983
Transfers Out	(18,983)	-	-	-	(18,983)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ -	\$ -	\$ -	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases and Construction of Capital Assets	\$ (141,534)	\$ -	\$ -	\$ -	\$ (141,534)
Principal Paid on Capital Debt	(15,000)	-	-	-	(15,000)
Interest and Fees Paid on Capital Debt	(3,983)	-	-	-	(3,983)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (160,517)	\$ -	\$ -	\$ -	\$ (160,517)
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 68,119	\$ 170,920	\$ (1,015)	\$ 9,372	\$ 247,397
Cash and Cash Equivalents - January 1	\$ 1,190,475	\$ 972,199	\$ 134,061	\$ 20,009	\$ 2,316,743
Cash and Cash Equivalents - December 31	\$ 1,258,594	\$ 1,143,120	\$ 133,046	\$ 29,381	\$ 2,564,140
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 204,661	\$ 152,513	\$ (2,016)	\$ 9,372	\$ 364,531
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	\$ 23,974	\$ 18,407	\$ 1,001	\$ -	\$ 43,382
Net Cash Provided (Used) by Operating Activities	\$ 228,635	\$ 170,920	\$ (1,015)	\$ 9,372	\$ 407,913

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, 2019 and 2018

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.

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 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.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

At year ended December 31, 2019, the City's carrying amount of deposits totaled \$4,143,267, and the bank balances totaled \$4,720,306. Of the bank balances, \$372,341 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, 2018, the City's carrying amount of deposits totaled \$4,837,709, and the bank balances totaled \$4,945,665. Of the bank balances, \$366,059 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 3 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 4 TRANSFERS

The following transfers were performed during 2018 and 2019:

	2019	
	Transfers In	Transfers Out
Business-Type Funds		
Water Fund	\$ 19,530	\$ (19,530)
Total Transfers	\$ 19,530	\$ (19,530)

	2018	
	Transfers In	Transfers Out
Governmental Funds		
General Fund	\$ -	\$ (8,100)
Special Revenue Fund	8,100	-
Business-Type Funds		
Water Fund	18,983	(18,983)
Total Transfers	\$ 27,083	\$ (27,083)

Transfers are done primarily for the following reasons:

- Transfer unrestricted revenues to finance various programs
- Transfer money out of the Water Fund and into the Water Bond Fund to make payments on the Water Reservoir Revenue Bonds.

NOTE 5 CAPITAL ASSETS**Governmental Activities**

The following is a summary of changes in capital assets for the years ended 2019 and 2018:

Governmental Activities	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
<i>Capital assets not being depreciated</i>				
Construction in Progress	\$ 72,329	\$ 780,613	\$ -	\$ 852,942
Land	12,000	-	-	12,000
Total Capital Assets, Not Being Depreciated	\$ 84,329	\$ 780,613	\$ -	\$ 864,942
<i>Capital assets, being depreciated</i>				
Buildings	\$ 594,795	\$ -	\$ -	\$ 594,795
Building Improvements	13,694	-	-	13,694
Furniture	29,339	-	-	29,339
Infrastructure Improvements	2,267,863	-	-	2,267,863
Machinery & Equipment	966,618	174,978	10,800	1,130,796
Total Capital Assets, Being Depreciated	\$ 3,872,309	\$ 174,978	\$ 10,800	\$ 4,036,487
<i>Less accumulated depreciation for</i>				
Buildings	\$ 159,657	\$ 11,896	\$ -	\$ 171,553
Building Improvements	8,216	1,007	-	9,223
Furniture	23,844	611	-	24,455
Infrastructure Improvements	616,382	55,088	-	671,470
Machinery & Equipment	659,208	103,146	10,800	751,554
Total Accumulated Depreciation	\$ 1,467,307	\$ 171,748	\$ 10,800	\$ 1,628,255
Total Capital Assets Being Depreciated, Net	\$ 2,405,002	\$ 3,230	\$ -	\$ 2,408,232
Total Capital Assets, Net	\$ 2,489,331	\$ 783,843	\$ -	\$ 3,273,174

Governmental Activities	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
<i>Capital assets not being depreciated</i>				
Construction in Progress	\$ -	\$ 72,329	\$ -	\$ 72,329
Land	12,000	-	-	12,000
Total Capital Assets, Not Being Depreciated	\$ 12,000	\$ 72,329	\$ -	\$ 84,329
<i>Capital assets, being depreciated</i>				
Buildings	\$ 594,795	\$ -	\$ -	\$ 594,795
Building Improvements	13,694	-	-	13,694
Furniture	29,339	-	-	29,339
Infrastructure Improvements	2,239,163	28,700	-	2,267,863
Machinery & Equipment	867,073	101,644	2,099	966,618
Total Capital Assets, Being Depreciated	\$ 3,744,064	\$ 130,344	\$ 2,099	\$ 3,872,309
<i>Less accumulated depreciation for</i>				
Buildings	\$ 147,761	\$ 11,896	\$ -	\$ 159,657
Building Improvements	7,209	1,007	-	8,216
Furniture	23,234	610	-	23,844
Infrastructure Improvements	561,294	55,088	-	616,382
Machinery & Equipment	570,982	90,326	2,099	659,209
Total Accumulated Depreciation	\$ 1,310,480	\$ 158,927	\$ 2,099	\$ 1,467,308
Total Capital Assets Being Depreciated, Net	\$ 2,433,584	\$ (28,583)	\$ -	\$ 2,405,001
Total Capital Assets, Net	\$ 2,445,584	\$ 43,746	\$ -	\$ 2,489,330

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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

Governmental Activities	2019	2018
General Government	\$ 12,674	\$ 12,674
Public Works	139,777	130,696
Public Safety	19,297	15,558
Total Depreciation Expense	\$ 171,748	\$ 158,928

Business-Type ActivitiesWater Fund

The following is a summary of changes in capital assets for the years ended 2019 and 2018:

Business-Type Activity - Water Fund	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
<i>Capital assets not being depreciated</i>				
Construction in Progress	\$ 101,158	\$ 1,916,272	\$ -	\$ 2,017,430
Land	10,766	-	-	10,766
Total Capital Assets, Not Being Depreciated	\$ 111,924	\$ 1,916,272	\$ -	\$ 2,028,196
<i>Capital assets, being depreciated</i>				
Buildings	\$ 354,435	\$ -	\$ -	\$ 354,435
Machinery & Equipment	1,457,038	13,498	-	1,470,536
Total Capital Assets, Being Depreciated	\$ 1,811,473	\$ 13,498	\$ -	\$ 1,824,971
<i>Less accumulated depreciation for</i>				
Buildings	\$ 271,016	\$ 7,089	\$ -	\$ 278,105
Machinery & Equipment	1,386,477	14,887	-	1,401,364
Total Accumulated Depreciation	\$ 1,657,493	\$ 21,976	\$ -	\$ 1,679,469
Total Capital Assets Being Depreciated, Net	\$ 153,980	\$ (8,478)	\$ -	\$ 145,502
Total Capital Assets, Net	\$ 265,904	\$ 1,907,794	\$ -	\$ 2,173,698

Business-Type Activity - Water Fund	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
<i>Capital assets not being depreciated</i>				
Construction in Progress	\$ -	\$ 101,158	\$ -	\$ 101,158
Land	10,766	-	-	10,766
Total Capital Assets, Not Being Depreciated	\$ 10,766	\$ 101,158	\$ -	\$ 111,924
<i>Capital assets, being depreciated</i>				
Buildings	\$ 354,435	\$ -	\$ -	\$ 354,435
Machinery & Equipment	1,416,663	40,375	-	1,457,038
Total Capital Assets, Being Depreciated	\$ 1,771,098	\$ 40,375	\$ -	\$ 1,811,473
<i>Less accumulated depreciation for</i>				
Buildings	\$ 263,927	\$ 7,089	\$ -	\$ 271,016
Machinery & Equipment	1,369,593	16,884	-	1,386,477
Total Accumulated Depreciation	\$ 1,633,520	\$ 23,973	\$ -	\$ 1,657,493
Total Capital Assets Being Depreciated, Net	\$ 137,578	\$ 16,402	\$ -	\$ 153,980
Total Capital Assets, Net	\$ 148,344	\$ 117,560	\$ -	\$ 265,904

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 2019 and 2018:

Business-Type Activity - Sewer Fund	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
<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	86,184	-	-	86,184
Total Capital Assets, Being Depreciated	\$ 303,274	\$ -	\$ -	\$ 303,274
<i>Less accumulated depreciation for</i>				
Infrastructure	\$ 90,859	\$ 9,488	\$ -	\$ 100,347
Machinery & Equipment	43,918	8,919	-	52,837
Total Accumulated Depreciation	\$ 134,777	\$ 18,407	\$ -	\$ 153,184
Total Capital Assets Being Depreciated, Net	\$ 168,497	\$ (18,407)	\$ -	\$ 150,090
Total Capital Assets, Net	\$ 193,497	\$ (18,407)	\$ -	\$ 175,090

Business-Type Activity - Sewer Fund	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
<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	86,184	-	-	86,184
Total Capital Assets, Being Depreciated	\$ 303,274	\$ -	\$ -	\$ 303,274
<i>Less accumulated depreciation for</i>				
Infrastructure	\$ 81,371	\$ 9,488	\$ -	\$ 90,859
Machinery & Equipment	34,999	8,919	-	43,918
Total Accumulated Depreciation	\$ 116,370	\$ 18,407	\$ -	\$ 134,777
Total Capital Assets Being Depreciated, Net	\$ 186,904	\$ (18,407)	\$ -	\$ 168,497
Total Capital Assets, Net	\$ 211,904	\$ (18,407)	\$ -	\$ 193,497

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 2019 and 2018:

Business-Type Activity - Garbage Fund	Balance 1/1/19	Increases	Decreases	Balance 12/31/19
<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	\$ 4,433	\$ 295	\$ -	\$ 4,728
Machinery & Equipment	6,759	706	-	7,465
Total Accumulated Depreciation	\$ 11,192	\$ 1,001	\$ -	\$ 12,193
Total Capital Assets Being Depreciated, Net	\$ 9,306	\$ (1,001)	\$ -	\$ 8,305
Total Capital Assets, Net	\$ 9,306	\$ (1,001)	\$ -	\$ 8,305

Business-Type Activity - Garbage Fund	Balance 1/1/18	Increases	Decreases	Balance 12/31/18
<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	\$ 4,137	\$ 296	\$ -	\$ 4,433
Machinery & Equipment	6,054	705	-	6,759
Total Accumulated Depreciation	\$ 10,191	\$ 1,001	\$ -	\$ 11,192
Total Capital Assets Being Depreciated, Net	\$ 10,307	\$ (1,001)	\$ -	\$ 9,306
Total Capital Assets, Net	\$ 10,307	\$ (1,001)	\$ -	\$ 9,306

Depreciation expense was charged to the Garbage function.

NOTE 6 LONG-TERM LIABILITIES**Governmental Activities**

The following changes occurred in long-term liabilities for the years ended 2019 and 2018:

Governmental Activities	Balance 1/1/19	Increases	Decreases	Balance 12/31/19	Due Within One Year
Long-Term Debt					
General Obligation Bonds	125,000	-	125,000	-	-

Governmental Activities	Balance 1/1/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Long-Term Debt					
General Obligation Bonds	135,000	-	10,000	125,000	10,000

CITY OF LINCOLN

Notes to the Financial Statements – Continued

Business-Type Activities

The following changes occurred in long-term liabilities for the years ended 2019 and 2018:

	Balance 1/1/19	Increases	Decreases	Balance 12/31/19	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 119,000	\$ 678,291	\$ 16,000	\$ 781,291	\$ 52,000

	Balance 1/1/18	Increases	Decreases	Balance 12/31/18	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 134,000		\$ 15,000	\$ 119,000	\$ 16,000

The annual requirements to amortize the outstanding long-term debt at December 31, 2019 is as follows:

PRIMARY GOVERNMENT		
Enterprise Activities		
Year Ending December 31	Revenue Bonds Payable	
	Principal	Interest
2020	\$ 52,000	\$ 10,036
2021	52,000	11,810
2022	52,000	10,860
2023	52,000	9,909
2024	53,000	8,960
2025 - 2029	218,000	32,121
2030 - 2034	220,000	16,221
2035 - 2039	82,291	1,794
Total	\$ 781,291	\$ 101,711

The City issued new Water Revenue Bonds in 2018 in the amount of \$836,000. The unused portion of the line of credit at the end of 2019 is \$157,709.

NOTE 7 COMMITMENTS

The City had the following commitments at December 21, 2019:

Governmental Activities

Project	Total Contract with Change Orders	Total Completed and Stored	Retainage	Remaining Balance includes Retainages	% Complete
Lincoln Public Works Building - Mechanical	\$ 203,725	\$ 18,800	\$ 1,880	\$ 186,805	9.23%
Lincoln Public Works Building - Construction	1,089,800	788,371	24,678	326,107	72.34%
Total	\$ 1,293,525	\$ 807,171	\$ 26,558	\$ 512,912	62.40%

Business-Type ActivitiesWater Fund

Project	Total Contract with Change Orders	Total Completed and Stored	Retainage	Remaining Balance includes Retainages	% Complete
Water Transmission Line	\$ 2,182,699	\$ 1,884,142	\$ 188,414	\$ 486,971	86.32%

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 provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member 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 on or after January 1, 2016 the Rule of 85 was replaced with the 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. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. 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

Notes to the Financial Statements – Continued

Member and Employer Contributions

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

At December 31, 2019 and 2018, the City's proportionate share of the net pension liability was \$664,483 and \$698,316 respectively. The net pension liability was measured as of June 30, 2019 and 2018 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, 2019 and 2018, the City's proportion was .056693 and .041379 percent, respectively, which was an increase of .015314 percent for 2019 and a decrease of .005097 percent for 2018. The Employer's share of the net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	<div> <div>Service at Beginning of year:</div> <div>Increase Rate:</div> <div>015.00%</div> <div>110.00%</div> <div>28.00%</div> <div>Age*</div> <div>Under 3610.00%</div> <div>36 – 407.50%</div> <div>41 – 496.75%</div> <div>50 – 596.50%</div> <div>60+5.25%</div> <div>* Age-based salary increase rates apply for employees with three or more years of service</div> </div>
Investment rate of return	7.50%, net of investment expenses
Cost-of-living adjustments	None

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

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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	30%	6.25%
International Equity	21%	6.95%
Private Equity	7%	10.15%
Domestic Fixed Income	23%	2.11%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.41%
Cash Equivalents	0%	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 benefit payments, which is the case for 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 an 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). For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 3.13%; and the resulting Single Discount Rate is 7.50%.

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

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what their proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate Share of the Net Pension Liability	\$ 952,726	\$ 664,483	\$ 422,309

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 NDAC Chapter 71-06 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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

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. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. 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, 2019 and 2018, the City's proportionate share of the net OPEB liability was \$42,446 and \$30,596 respectively. The net OPEB liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018, the City's proportion was .052847 and .038849 percent, respectively, which was an increase of .013998 percent for 2019 and a decrease of .005007

CITY OF LINCOLN

Notes to the Financial Statements – Continued

percent for 2018. The Employer's share of the net OPEB liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total OPEB liability in the July 1, 2019 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	7.25%, 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.00%
Small Cap Domestic Equities	6%	7.30%
International Equities	21%	6.95%
Domestic Fixed Income	40%	2.07%

Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. 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, 2018, and July 1, 2017, 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 sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC 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, 2019, calculated using the discount rate of 7.25%, 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate Share of the OPEB Liability	\$ 54,177	\$ 42,446	\$ 32,405

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 SUBSEQUENT EVENTS

During 2021 and 2022, the City drew down an additional \$115,909 and \$41,800 respectively on its \$836,000 Water Revenue Bonds, Series 2018. During 2020 and 2021 the City made principal payments in the amounts of \$36,000, and \$35,000 respectively on the Bonds.

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.

CITY OF LINCOLN

Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 722,170	\$ 722,170	\$ 702,007	\$ (20,163)
Licenses, Permits and Fees	46,525	46,525	84,587	38,062
Charges for Services	65,000	65,000	31,536	(33,464)
Intergovernmental	254,400	254,400	316,583	62,183
Interest	24,000	24,000	56,707	32,707
Miscellaneous	-	-	1,620	1,620
Total Revenues	<u>\$ 1,112,095</u>	<u>\$ 1,112,095</u>	<u>\$ 1,193,040</u>	<u>\$ 80,945</u>
EXPENDITURES				
Current				
General Government	\$ 555,904	\$ 555,904	\$ 538,820	\$ 17,083
Public Safety	505,251	505,251	604,769	(99,519)
Total Expenditures	<u>\$ 1,061,154</u>	<u>\$ 1,061,154</u>	<u>\$ 1,143,590</u>	<u>\$ (82,435)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 50,941</u>	<u>\$ 50,941</u>	<u>\$ 49,450</u>	<u>\$ (1,490)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 20,000	\$ 20,000	\$ -	\$ (20,000)
Net Change in Fund Balances	<u>\$ 70,941</u>	<u>\$ 70,941</u>	<u>\$ 49,450</u>	<u>\$ (21,490)</u>
Fund Balances - January 1	<u>\$ 405,373</u>	<u>\$ 405,373</u>	<u>\$ 405,373</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 476,313</u></u>	<u><u>\$ 476,313</u></u>	<u><u>\$ 454,823</u></u>	<u><u>\$ (21,490)</u></u>

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

CITY OF LINCOLN

Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Tax	\$ 68,684	\$ 68,684	\$ 66,657	\$ (2,026)
Sales Tax	60,000	60,000	116,298	56,298
Intergovernmental	150,500	150,500	170,187	19,687
Total Revenues	\$ 279,184	\$ 279,184	\$ 353,143	\$ 73,959
EXPENDITURES				
Current				
General Government	\$ 20,000	\$ 20,000	\$ 35,863	\$ (15,863)
Public Works	254,968	254,968	195,880	59,088
Culture & Recreation	10,750	10,750	3,812	6,938
Capital Outlay	1,300,000	1,300,000	782,063	517,937
Total Expenditures	\$ 1,585,718	\$ 1,585,718	\$ 1,017,618	\$ 568,100
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,306,534)	\$ (1,306,534)	\$ (664,475)	\$ 642,059
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 1,404,468	\$ 1,404,468	\$ -	\$ (1,404,468)
Net Change in Fund Balances	\$ 97,934	\$ 97,934	\$ (664,475)	\$ (762,409)
Fund Balances - January 1	\$ 1,238,980	\$ 1,238,980	\$ 1,238,980	\$ -
Fund Balances - December 31	<u>\$ 1,336,914</u>	<u>\$ 1,336,914</u>	<u>\$ 574,506</u>	<u>\$ (762,409)</u>

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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 656,485	\$ 656,485	\$ 662,087	\$ 5,602
Licenses, Permits and Fees	41,200	41,200	53,241	12,041
Charges for Services	50,850	50,850	66,320	15,470
Intergovernmental	270,500	270,500	276,008	5,508
Interest	6,000	6,000	39,611	33,611
Total Revenues	<u>\$ 1,025,035</u>	<u>\$ 1,025,035</u>	<u>\$ 1,097,267</u>	<u>\$ 72,232</u>
EXPENDITURES				
Current				
General Government	\$ 457,989	\$ 457,989	\$ 721,111	\$ (263,122)
Public Safety	475,860	475,860	458,900	16,960
Culture & Recreation	1,000	1,000	-	1,000
Total Expenditures	<u>\$ 934,849</u>	<u>\$ 934,849</u>	<u>\$ 1,180,011</u>	<u>\$ (245,161)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 90,186</u>	<u>\$ 90,186</u>	<u>\$ (82,744)</u>	<u>\$ (172,930)</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	\$ -	\$ -	\$ (8,100)	\$ (8,100)
Total Other Financing Sources and Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,100.00)</u>	<u>\$ (8,100)</u>
Net Change in Fund Balances	<u>\$ 90,186</u>	<u>\$ 90,186</u>	<u>\$ (90,844)</u>	<u>\$ (181,030)</u>
Fund Balances - January 1	<u>\$ 496,217</u>	<u>\$ 496,217</u>	<u>\$ 496,217</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 586,403</u></u>	<u><u>\$ 586,403</u></u>	<u><u>\$ 405,373</u></u>	<u><u>\$ (181,030)</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, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Tax	\$ 68,005	\$ 68,005	\$ 67,413	\$ (592)
Sales Tax	30,000	30,000	57,136	27,136
Intergovernmental	146,367	146,367	161,402	15,035
Total Revenues	\$ 244,372	\$ 244,372	\$ 285,951	\$ 41,579
EXPENDITURES				
Current				
General Government	\$ 45,040	\$ 45,040	\$ 65,724	\$ (20,684)
Public Works	202,491	202,491	206,642	(4,151)
Public Safety	35,000	35,000	33,644	1,356
Culture & Recreation	17,500	17,500	12,887	4,613
Total Expenditures	\$ 300,031	\$ 300,031	\$ 318,896	\$ (18,866)
Excess (Deficiency) of Revenues Over Expenditures	\$ (55,658)	\$ (55,658)	\$ (32,945)	\$ 22,713
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 1,056,812	\$ 1,056,812	\$ 8,100	\$ (1,048,712)
Net Change in Fund Balances	\$ 1,001,154	\$ 1,001,154	\$ (24,845)	\$ (1,025,999)
Fund Balances - January 1	\$ 1,263,826	\$ 1,263,826	\$ 1,263,826	\$ -
Fund Balances - December 31	<u>\$ 2,264,980</u>	<u>\$ 2,264,980</u>	<u>\$ 1,238,980</u>	<u>\$ (1,025,999)</u>

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, 2019 and 2018

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 2019 and 2018 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 year ended December 31, 2018, and the related notes to the financial statements and we were engaged to audit 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 year ended December 31, 2019, 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 disclaims an opinion on 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 year ended December 31, 2019 as the City of Lincoln did not maintain accurate accounting records for cash to provide sufficient information for the preparation of financial statements and our report issued a qualified opinion over business-type activities, water fund, sewer fund, garbage fund, and the aggregate remaining fund information for the year ended December 31, 2018 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 2019-001 through 2019-007, 2019-009, and 2019-010 to be material weaknesses.

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

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 deficiency described in the accompanying *schedule of audit findings* as item 2019-008 to be a significant deficiency.

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 2019-007.

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, 2019 and 2018

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, 2019 and 2018

2019-001 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 2018 and 2019, 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.

2019-002 COUNCIL APPROVAL FOR EXPENDITURES – MATERIAL WEAKNESS

Condition

The City of Lincoln was unable to provide evidence of city council approval for 4 out of 45 expenses tested totaling \$498,402.

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

Yes.

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.

2019-003 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.

2019-004 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

Yes.

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.

2019-005 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

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

- One police department expenditure for training totaling \$2,615
- Two roofing expenses totaling \$17,336
- Three capital asset additions totaling \$63,700
- Titles for three vehicle capital asset additions totaling \$116,860

We were able to perform alternate procedures to verify that the City of Lincoln had the assets associated with the three capital asset additions and titles for three vehicles 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, and expenditures.

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

Yes.

Recommendation

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

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.

2019-006 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 for 2018. 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 for 2018 totaled \$1,562,328.

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 year 2018 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

Yes.

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.

2019-007 LACK OF ESTIMATED BUDGETED CASH – MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE

Condition

The City of Lincoln did not include estimated cash amounts in the 2018 and 2019 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

Yes.

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.

2019-008 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

Yes.

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.

2019-009 UNDEPOSITED CLERK OF COURT FEES – MATERIAL WEAKNESS

Condition

We were unable to trace clerk of court fees to the city's general fund for 3 out of 30 items tested that totaled \$3,180. This error projected to the population resulted in a total potential error of \$3,857.

Effect

The City of Lincoln may not have received all clerk of court fees collected.

Cause

The City of Lincoln did not have established policies and procedures to ensure all clerk of court fee collections were deposited into the general fund.

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 clerk of court fees, management is responsible for the policies and procedures to ensure accurate and timely bank deposits.

Prior Recommendation

No.

Recommendation

We recommend the City of Lincoln review its current policies and procedures and update as necessary, to ensure all clerk of court fees collected by the city are deposited into the general fund.

City of Lincoln's Response

We agree. Controls have been in place since January 2022 to ensure that funds recorded match both the deposit slips and receipt books. The reconciliation of all accounts are reviewed by the City Auditor, Mayor and City Council President.

2019-010 BANK RECONCILIATION ERRORS – MATERIAL WEAKNESS

Condition

During test of bank reconciliation prepared by the City of Lincoln it was determined that the year-end bank reconciliations did not balance to the general ledger by an unreconciled net difference of \$903,194 as of December 31, 2019. Adjustments were proposed to the City of Lincoln in the amount of \$1,021,828, but the general ledger was still lower than the bank reconciliations by the remaining unreconciled net difference of \$118,634 as of December 31, 2019.

Effect

There is an increased risk of material misstatement to City of Lincoln's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate.

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 the policies and procedures to ensure accurate and timely bank reconciliations.

Prior Recommendation

Yes.

Recommendation

We recommend the City of Lincoln to review its current policies and procedures to ensure that all bank reconciliations are accurately completed on a monthly basis.

City of Lincoln's Response

We agree. Reconciliations are now completed monthly. Council approval is required each month

STATE AUDITOR
Joshua C. Gallion



PHONE
701-328-2241

FAX
701-328-2345

www.nd.gov/auditor

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota, 58505

ndsao@nd.gov

GOVERNANCE COMMUNICATION

City Council
City of Lincoln
Lincoln, North Dakota

We have audited the 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, for the year ended December 31, 2018, and we were engaged to audit the 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, for the year ended December 31, 2019, 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, 2019 and 2018. 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.

2019	Debit	Credit
Government Fund Adjustments		
<i>General Fund</i>		
<u>To correct revenues coded as expenditures</u>		
Expenditures	1,101	-
Revenues	-	1,101
<i>Special Revenue Fund</i>		
<u>To correct revenues coded as expenditures</u>		
Expenditures	1,845	-
Revenues	-	1,845
2018	Debit	Credit
Government Fund Adjustments		
<i>General Fund</i>		
<u>To correct revenues coded as expenditures</u>		
Expenditures	1,077	-
Revenues	-	1,077
Water Fund		
<u>To correct revenues coded as expenditures</u>		
Expenditures	13,169	-
Revenues	-	13,169

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

2019	Government Wide	
<u>To Adjust Capital Assets</u>		
Capital Assets	154,963	-
Expenditures	22,103	-
Beginning Net Position	-	177,066

Enterprise Funds

	Water Fund	
<u>To Adjust Capital Assets</u>		
Capital Assets	350,542	-
Expenditures	-	214,776
Beginning Net Position	-	135,766

2018	Government Wide	
<u>To Adjust Capital Assets for Current and</u>		
Capital Assets	177,066	-
Expenditures	-	111,427
Beginning Net Position	-	65,639

Enterprise Funds

	Water Fund	
<u>To Adjust Capital Assets</u>		
Capital Assets	135,766	-
Expenditures	-	135,766

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:

- Material differences were noted between the City of Lincoln's bank reconciliation and general ledger. Management could not provide support for differences in the amounts of \$118,633 for 2019.
- The City of Lincoln did not maintain supporting documentation related to the city water, sewer, garbage, and non-major enterprise billings and collections for 2018. Due to the lack of supporting documentation, verification of the revenues included in the financial statements was not able to be performed. Collections during 2018 totaled \$1,562,328.

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.

We do not express an opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln for 2019. Because of the significance of the matter described in the *Difficulties Encountered in Performing the Audit* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.'

We issued a qualified opinion over business-type activities, water fund, sewer fund, garbage fund, and aggregate remaining fund information for 2018 because the City did not maintain supporting documentation related to the city water, sewer, garbage and non-major enterprise billings and collections as explained in the *Difficulties Encountered in Performing the Audit* paragraph.

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.

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

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505