



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, 2021 and 2020

Client Code: PS8140



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Office of the
State Auditor

CITY OF LINCOLN

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CITY OF LINCOLN

City Officials

December 31, 2021 and 2020

CITY OFFICIALS

As of December 31, 2021

Hayley Akre	President
Tom Volk	Commissioner
Jamie Leingang	Commissioner
Brendon Schock	Commissioner
Gerard Wise	Mayor
Lisa Aune	City Auditor

As of December 31, 2020

Hayley Akre	President
Tom Volk	Commissioner
Brandon Schock	Commissioner
Jamie Leingang	Commissioner
Gerard Wise	Mayor
Shawn Surface	City Auditor



INDEPENDENT AUDITOR'S REPORT

City Council
City of Lincoln
Lincoln, North Dakota

Report on the Financial Statements

Qualified, and Unmodified Opinions

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, 2020, 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.

Qualified Opinion on the 2020 Business-Type Activities, Water Fund, Sewer Fund, Garbage Fund, and Aggregate Remaining Fund Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified and Unmodified Opinions* section of our report, the accompanying modified cash basis 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 as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions on the 2020 Governmental Activities, General Fund, Special Revenue Fund, and Debt Service Fund

In our opinion, the accompanying modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, General Fund, Special Revenue Fund, and the Debt Service Fund of City of Lincoln as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting.

Disclaimer of Opinion on the 2021 Governmental Activities, Business-Type Activities, Major Funds, and Aggregate Remaining Fund Information

We do not express an opinion on the accompanying modified cash basis financial statements of the governmental activities, business-type activities, major funds, and aggregate remaining fund information for the year ended December 31, 2021. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the governmental activities, business-type activities, major funds, and aggregate remaining fund information.

Basis for Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in the Government Auditing Standards (GAS) issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Lincoln, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

CITY OF LINCOLN

Independent Auditor's Report – Continued

Matter Giving Rise to Qualified Opinion on the 2020 Business-Type Activities, Water Fund, Sewer Fund, Garbage Fund, and Aggregate Remaining Fund Information

The City of Lincoln did not maintain supporting documentation for prior period adjustments for the city water, sewer, garbage, and non-major enterprise funds during 2020. Due to the lack of supporting documentation, the prior period adjustments could not be verified for accuracy. Prior period adjustments for these funds totaled \$103,007 and can be seen in Note 2 to the financial statements.

Basis for Disclaimer of Opinion for 2021

The City of Lincoln did not maintain adequate accounting records to provide sufficient information for the preparation of financial statements for 2021 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, 2021, were higher than the bank reconciliation cash by a net difference of \$208,089.
- For 2021, during a search for capital assets it was noted that five expenditures totaling \$54,921 were missing invoices.

Emphasis of Matter

Basis of Accounting

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

Prior Period Restatement

As discussed in Note 2 to the financial statements, the 2020 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Lincoln's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Lincoln's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lincoln's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 2020 *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 2021* paragraph, it is inappropriate to, and we do not express an opinion on the 2021 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, 2021

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash and Investments	\$ 2,538,845	\$ 3,584,175	\$ 6,123,020
Restricted Cash	-	52,250	52,250
Capital Assets, Net	3,844,066	3,240,838	7,084,904
Total Assets	\$ 6,382,911	\$ 6,877,263	\$ 13,260,174
LIABILITIES			
Grants Received in Advance	\$ 299,651	\$ -	\$ 299,651
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	-	52,000	52,000
Due After One Year			
Long-Term Debt	-	741,200	741,200
Total Liabilities	\$ 299,651	\$ 793,200	\$ 1,092,851
NET POSITION			
Net Investment in Capital Assets	\$ 3,844,066	\$ 2,447,638	\$ 6,291,704
Restricted			
Debt Service	696,806	52,250	749,056
General Government	339,048	-	339,048
Public Safety	9,917	-	9,917
Emergencies	90,000	-	90,000
Culture and Recreation	96,925	-	96,925
Unrestricted	1,006,499	3,584,175	4,590,674
Total Net Position	\$ 6,083,260	\$ 6,084,063	\$ 12,167,323

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, 2021

	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	\$ 586,574	\$ 105,114	\$ -	\$ -	\$ (481,460)		\$ (481,460)
Public Safety	746,869	-	26,184	-	(720,686)		(720,686)
Public Works	314,966	-	166,811	42,972	(105,184)		(105,184)
Culture and Recreation	4,215	-	-	-	(4,215)		(4,215)
Total Governmental Activities	\$ 1,652,625	\$ 105,114	\$ 192,995	\$ 42,972	\$ (1,311,544)		\$ (1,311,544)
Business-Type Activities							
Water	\$ 937,516	\$ 1,416,656	\$ 1,957	\$ 309,178		\$ 790,275	\$ 790,275
Sewer	201,294	493,742	-	-		292,448	292,448
Garbage	402,406	567,075	-	-		164,670	164,670
Non Major	35,053	65,754	-	-		30,701	30,701
Total Business-Type Activities	\$ 1,576,269	\$ 2,543,227	\$ 1,957	\$ 309,178	\$ -	\$ 1,278,092	\$ 1,247,392
Total Primary Government	\$ 3,228,894	\$ 2,648,340	\$ 194,952	\$ 352,150	\$ (1,311,544)	\$ 1,278,092	\$ (64,153)
GENERAL REVENUES							
Property Taxes					\$ 1,031,047	\$ -	\$ 1,031,047
Sales Taxes					209,000	-	209,000
Non-Restricted Grants and Contributions					386,722	-	386,722
Unrestricted Investment Earnings					18,871	-	18,871
Miscellaneous					34,275	33,465	67,739
Total General Revenues and Transfers					\$ 1,679,916	\$ 33,465	\$ 1,713,380
Changes in Net Position					\$ 368,371	\$ 1,311,557	\$ 1,679,929
Net Position - January 1					\$ 5,714,889	\$ 4,772,505	\$ 10,487,394
Net Position - December 31					\$ 6,083,260	\$ 6,084,063	\$ 12,167,323

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, 2021

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,446,360	\$ 391,292	\$ 701,192	\$ 2,538,844
Due from Other Funds	4,386	-	-	4,386
Total Assets	<u>\$ 1,450,746</u>	<u>\$ 391,292</u>	<u>\$ 701,192</u>	<u>\$ 2,543,230</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities				
Grants Received in Advance	\$ 299,651	\$ -	\$ -	\$ 299,651
Due to Other Funds	-	-	4,386	4,386
Total Liabilities	<u>\$ 299,651</u>	<u>\$ -</u>	<u>\$ 4,386</u>	<u>\$ 304,037</u>
Fund Balances				
Restricted				
Debt Service	\$ -	\$ -	\$ 696,806	\$ 696,806
General Government	-	339,048	-	339,048
Public Safety	-	9,917	-	9,917
Public Works/Streets	-	-	-	-
Emergency	-	90,000	-	90,000
Culture & Recreation	-	96,925	-	96,925
Unassigned				
General Fund	1,151,096	-	-	1,151,096
Negative Fund Balances	-	(144,597)	-	(144,597)
Total Fund Balances	<u>\$ 1,151,096</u>	<u>\$ 391,292</u>	<u>\$ 696,806</u>	<u>\$ 2,239,194</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,450,746</u>	<u>\$ 391,292</u>	<u>\$ 701,192</u>	<u>\$ 2,543,230</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, 2021

Total <i>Fund Balances</i> for Governmental Funds	\$ 2,239,194
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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>3,844,066</u>

Total Net Position of Governmental Activities	<u><u>\$ 6,083,260</u></u>
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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, 2021

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 989,128	\$ 41,697	\$ 222	\$ 1,031,047
Special Assessment Taxes	-	-	42,972	42,972
Sales Taxes	-	209,000	-	209,000
Licenses, Permits and Fees	68,360	-	-	68,360
Charges for Services	36,754	-	-	36,754
Intergovernmental	412,906	166,811	-	579,717
Interest	18,455	-	416	18,871
Miscellaneous	34,023	252	-	34,275
Total Revenues	\$ 1,559,626	\$ 417,760	\$ 43,611	\$ 2,020,996
EXPENDITURES				
Current				
General Government	\$ 502,180	\$ 141,719	\$ -	\$ 643,900
Public Safety	730,862	53	-	730,915
Public Works	-	290,990	-	290,990
Culture and Recreation	-	4,215	-	4,215
Total Expenditures	\$ 1,233,042	\$ 436,978	\$ -	\$ 1,670,021
Excess (Deficiency) of Revenues Over Expenditures	\$ 326,584	\$ (19,219)	\$ 43,611	\$ 350,975
Net Change in Fund Balances	\$ 326,584	\$ (19,219)	\$ 43,611	\$ 350,975
Fund Balance - January 1	\$ 824,512	\$ 410,511	\$ 653,195	\$ 1,888,218
Fund Balance - December 31	\$ 1,151,096	\$ 391,292	\$ 696,806	\$ 2,239,194

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, 2021

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ 350,975
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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	\$ 236,125	
Current Year Depreciation Expense	<u>(218,729)</u>	<u>17,396</u>

Change in Net Position of Governmental Activities	<u>\$ 368,371</u>
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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, 2021

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
ASSETS					
Current Assets					
Cash and Investments	\$ 1,938,609	\$ 1,162,796	\$ 368,049	\$ 114,721	\$ 3,584,175
Restricted Cash and Investments	52,250	-	-	-	52,250
Total Current Assets	\$ 1,990,859	\$ 1,162,796	\$ 368,049	\$ 114,721	\$ 3,636,425
Noncurrent Assets					
Capital Assets, Net	\$ 2,576,821	\$ 657,714	\$ 6,303	\$ -	\$ 3,240,838
Total Assets	\$ 4,567,680	\$ 1,820,510	\$ 374,352	\$ 114,721	\$ 6,877,263
LIABILITIES					
Current Liabilities					
Long-Term Debt	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Total Current Liabilities	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Noncurrent Liabilities					
Long-Term Debt	\$ 741,200	\$ -	\$ -	\$ -	\$ 741,200
Total Liabilities	\$ 793,200	\$ -	\$ -	\$ -	\$ 793,200
NET POSITION					
Net Investment in Capital Assets	\$ 1,783,621	\$ 657,714	\$ 6,303	\$ -	\$ 2,447,638
Restricted					
Debt Service	52,250	-	-	-	52,250
Unrestricted	1,938,609	1,162,796	368,049	114,721	3,584,175
Total Net Position	\$ 3,774,480	\$ 1,820,510	\$ 374,352	\$ 114,721	\$ 6,084,063

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

CITY OF LINCOLNStatement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis
For the Year Ended December 31, 2021

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
OPERATING REVENUES					
Charges for Services	\$ 1,416,656	\$ 493,742	\$ 567,075	\$ 65,754	\$ 2,543,227
Miscellaneous	8,140	8,175	8,893	8,257	33,465
Total Operating Revenues	<u>\$ 1,424,796</u>	<u>\$ 501,916</u>	<u>\$ 575,968</u>	<u>\$ 74,011</u>	<u>\$ 2,576,692</u>
OPERATING EXPENSES					
Salaries and wages	\$ 128,759	\$ 79,645	\$ 37,701	\$ -	\$ 246,105
Health Insurance	19,159	11,397	5,199	-	35,755
Retirement	10,008	6,133	2,779	-	18,920
Unemployment	71	190	38	-	300
Legal Fees	-	263	-	-	263
Professional Fees	100	-	-	-	100
Training/Computer Support	8	8	-	-	15
Utilities	17,282	8,834	-	-	26,116
Meter Parts	8,224	-	-	-	8,224
Supplies	1,598	5,730	-	-	7,328
Repair/Maintenance	17,606	47,839	658	-	66,103
Office Supplies	6,569	2,890	2,525	548	12,531
Gas, Oil, Diesel Fuel	1,548	1,547	1,548	-	4,644
Machinery & Equipment	8,722	43	2,763	-	11,528
Miscellaneous Expense	4,765	-	-	-	4,765
Bismarck Water	620,422	-	-	-	620,422
Water Testing	3,003	-	-	-	3,003
Garbage	-	-	348,194	-	348,194
Street Lighting	-	-	-	34,505	34,505
Depreciation	73,319	36,776	1,001	-	111,096
Total Operating Expenses	<u>\$ 921,163</u>	<u>\$ 201,294</u>	<u>\$ 402,406</u>	<u>\$ 35,053</u>	<u>\$ 1,559,916</u>
Operating Income	<u>\$ 503,633</u>	<u>\$ 300,622</u>	<u>\$ 173,563</u>	<u>\$ 38,958</u>	<u>\$ 1,016,776</u>
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	\$ 311,135	\$ -	\$ -	\$ -	\$ 311,135
Interest Expense and Service Charges	(16,353)	-	-	-	(16,353)
Total Nonoperating Revenues (Expenses)	<u>\$ 294,781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 294,781</u>
Income (Loss) Before Contributions and Transfers	<u>\$ 798,415</u>	<u>\$ 300,622</u>	<u>\$ 173,563</u>	<u>\$ 38,958</u>	<u>\$ 1,311,557</u>
Change in Net Position	<u>\$ 798,415</u>	<u>\$ 300,622</u>	<u>\$ 173,563</u>	<u>\$ 38,958</u>	<u>\$ 1,311,557</u>
Net Position - January 1	<u>\$ 2,976,066</u>	<u>\$ 1,519,887</u>	<u>\$ 200,789</u>	<u>\$ 75,763</u>	<u>\$ 4,772,505</u>
Net Position - December 31	<u>\$ 3,774,481</u>	<u>\$ 1,820,509</u>	<u>\$ 374,352</u>	<u>\$ 114,721</u>	<u>\$ 6,084,063</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, 2021

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 1,416,656	\$ 493,742	\$ 567,075	\$ 65,754	\$ 2,543,227
Payments to Suppliers	(689,847)	(67,153)	(355,687)	(35,053)	(1,147,740)
Payments to Employees	(157,997)	(97,365)	(45,717)	-	(301,080)
Other Receipts	8,140	8,175	8,893	8,257	33,465
Net Cash Provided (Used) by Operating Activities	\$ 576,952	\$ 337,398	\$ 174,564	\$ 38,958	\$ 1,127,872
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating Grant	\$ 1,957	\$ -	\$ -	\$ -	\$ 1,957
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 1,957	\$ -	\$ -	\$ -	\$ 1,957
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital Contributions	\$ 309,178	\$ -	\$ -	\$ -	\$ 309,178
Purchases and Construction of Capital Assets	-	(294,276)	-	-	(294,276)
Bond Proceeds	115,909	-	-	-	115,909
Principal Paid on Capital Debt	(52,000)	-	-	-	(52,000)
Interest and Fees Paid on Capital Debt	(16,353)	-	-	-	(16,353)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ 356,734	\$ (294,276)	\$ -	\$ -	\$ 62,458
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 935,643	\$ 43,122	\$ 174,564	\$ 38,958	\$ 1,192,286
Cash and Cash Equivalents - January 1	\$ 1,055,217	\$ 1,119,674	\$ 193,485	\$ 75,763	\$ 2,444,139
Cash and Cash Equivalents - December 31	\$ 1,990,860	\$ 1,162,796	\$ 368,049	\$ 114,721	\$ 3,636,426
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 503,633	\$ 300,622	\$ 173,563	\$ 38,958	\$ 1,016,776
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	\$ 73,319	\$ 36,776	\$ 1,001	\$ -	\$ 111,096
Net Cash Provided (Used) by Operating Activities	\$ 576,952	\$ 337,398	\$ 174,564	\$ 38,958	\$ 1,127,872

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, 2020

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS			
Cash and Investments	\$ 1,888,218	\$ 2,391,889	\$ 4,280,108
Restricted Cash and Investments	-	52,250	52,250
Accounts Receivable	-	-	-
Capital Assets, Net	3,826,671	3,057,657	6,884,328
Total Assets	\$ 5,714,889	\$ 5,501,796	\$ 11,216,686
LIABILITIES			
Long-Term Liabilities			
Due Within One Year			
Long-Term Debt	\$ -	\$ 52,000	\$ 52,000
Due After One Year			
Long-Term Debt	-	677,291	677,291
Total Liabilities	\$ -	\$ 729,291	\$ 729,291
NET POSITION			
Net Investment in Capital Assets	\$ 3,826,671	\$ 2,328,366	\$ 6,155,037
Restricted			
Debt Service	653,195	52,250	705,445
General Government	263,930	-	263,930
Public Safety	9,971	-	9,971
Emergencies	90,000	-	90,000
Culture and Recreation	81,713	-	81,713
Unrestricted	789,409	2,391,889	3,181,298
Total Net Position	\$ 5,714,889	\$ 4,772,505	\$ 10,487,395

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, 2020

	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	\$ 635,057	\$ 92,366	\$ -	\$ -	\$ (542,691)		\$ (542,691)
Public Safety	699,366	-	-	-	(699,366)		(699,366)
Public Works	300,138	-	645,911	44,900	390,674		390,674
Culture and Recreation	10,553	-	-	-	(10,553)		(10,553)
Total Governmental Activities	\$ 1,645,114	\$ 92,366	\$ 645,911	\$ 44,900	\$ (861,936)		\$ (861,936)
Business-Type Activities							
Water	\$ 917,505	\$ 1,216,078	\$ -	\$ -		\$ 298,573	\$ 298,573
Sewer	175,872	369,164	-	-		193,292	193,292
Garbage	405,919	452,614	-	-		46,694	46,694
Non Major	34,429	53,867	-	-		19,438	19,438
Total Business-Type Activities	\$ 1,533,725	\$ 2,091,722	\$ -	\$ -	\$ -	\$ 557,997	\$ 538,559
Total Primary Government	\$ 3,178,839	\$ 2,184,088	\$ 645,911	\$ 44,900	\$ (861,936)	\$ 557,997	\$ (323,377)
GENERAL REVENUES							
Property Taxes					\$ 956,910	\$ -	\$ 956,910
Sales Taxes					151,253	-	151,253
Non-Restricted Grants and Contributions					514,144	-	514,144
Unrestricted Investment Earnings					29,965	-	29,965
Miscellaneous					4,697	24,614	29,311
Total General Revenues and Transfers					\$ 1,656,968	\$ 24,614	\$ 1,681,582
Changes in Net Position					\$ 795,032	\$ 582,612	\$ 1,377,644
Net Position - January 1					\$ 4,905,357	\$ 4,086,886	\$ 8,992,243
Prior Period Adjustments					\$ 14,500	\$ 103,007	\$ 117,507
Net Position - January 1, as restated					\$ 4,919,857	\$ 4,189,893	\$ 9,109,751
Net Position - December 31					\$ 5,714,889	\$ 4,772,505	\$ 10,487,394

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, 2020

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 820,126	\$ 410,511	\$ 657,581	\$ 1,888,218
Due from Other Funds	4,386	-	-	4,386
Total Assets	<u>\$ 824,512</u>	<u>\$ 410,511</u>	<u>\$ 657,581</u>	<u>\$ 1,892,604</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	\$ -	\$ -	\$ 653,195	\$ 653,195
General Government	-	263,930	-	263,930
Public Safety	-	9,971	-	9,971
Emergency	-	90,000	-	90,000
Culture & Recreation	-	81,713	-	81,713
Assigned				
Public Works/Streets	-	-	-	-
Unassigned				
General Fund	824,512	-	-	824,512
Negative Fund Balances	-	(35,103)	-	(35,103)
Total Fund Balances	<u>\$ 824,512</u>	<u>\$ 410,511</u>	<u>\$ 653,195</u>	<u>\$ 1,888,218</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 824,512</u>	<u>\$ 410,511</u>	<u>\$ 657,581</u>	<u>\$ 1,892,604</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, 2020

Total <i>Fund Balances</i> for Governmental Funds	\$ 1,888,218
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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>3,826,671</u>

Total Net Position of Governmental Activities	<u><u>\$ 5,714,889</u></u>
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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, 2020

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Property Taxes	\$ 918,398	\$ 37,490	\$ 1,022	\$ 956,910
Special Assessment Taxes	-	-	44,900	44,900
Sales Taxes	-	151,253	-	151,253
Licenses, Permits and Fees	58,537	-	-	58,537
Charges for Services	33,829	-	-	33,829
Intergovernmental	518,144	641,911	-	1,160,055
Interest	29,047	-	918	29,965
Miscellaneous	3,349	1,347	-	4,696
Total Revenues	\$ 1,561,304	\$ 832,001	\$ 46,840	\$ 2,440,145
EXPENDITURES				
Current				
General Government	\$ 495,386	\$ 126,997	\$ -	\$ 622,383
Public Safety	716,099	-	-	716,099
Public Works	-	199,066	-	199,066
Culture and Recreation	-	10,553	-	10,553
Capital Outlay	-	650,509	-	650,509
Total Expenditures	\$ 1,211,485	\$ 987,125	\$ -	\$ 2,198,610
Excess (Deficiency) of Revenues Over Expenditures	\$ 349,819	\$ (155,124)	\$ 46,840	\$ 241,535
Net Change in Fund Balances	\$ 349,819	\$ (155,124)	\$ 46,840	\$ 241,535
Fund Balance - January 1	\$ 454,823	\$ 574,506	\$ 602,854	\$ 1,632,183
Prior Period Adjustment	\$ 19,870	\$ (8,870)	\$ 3,501	\$ 14,500
Fund Balance - January 1, as restated	\$ 474,693	\$ 565,636	\$ 606,355	\$ 1,646,683
Fund Balance - December 31	\$ 824,512	\$ 410,511	\$ 653,195	\$ 1,888,218

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, 2020

Net Change in <i>Fund Balances</i> - Total Governmental Funds	\$ 241,535
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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	\$ 763,493	
Current Year Depreciation Expense	<u>(209,996)</u>	<u>553,497</u>

Change in Net Position of Governmental Activities	<u>\$ 795,032</u>
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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, 2020

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
ASSETS					
Current Assets					
Cash and Investments	\$ 1,002,967	\$ 1,119,674	\$ 193,485	\$ 75,763	\$ 2,391,889
Restricted Cash and Investments	52,250	-	-	-	52,250
Total Current Assets	\$ 1,055,217	\$ 1,119,674	\$ 193,485	\$ 75,763	\$ 2,444,139
Noncurrent Assets					
Capital Assets, Net	\$ 2,650,140	\$ 400,213	\$ 7,304	\$ -	\$ 3,057,657
Total Assets	\$ 3,705,357	\$ 1,519,887	\$ 200,789	\$ 75,763	\$ 5,501,796
LIABILITIES					
Current Liabilities					
Long-Term Debt	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Total Current Liabilities	\$ 52,000	\$ -	\$ -	\$ -	\$ 52,000
Noncurrent Liabilities					
Long-Term Debt	\$ 677,291	\$ -	\$ -	\$ -	\$ 677,291
Total Liabilities	\$ 729,291	\$ -	\$ -	\$ -	\$ 729,291
NET POSITION					
Net Investment in Capital Assets	\$ 1,920,849	\$ 400,213	\$ 7,304	\$ -	\$ 2,328,366
Restricted					
Debt Service	\$ 52,250	\$ -	\$ -	\$ -	\$ 52,250
Unrestricted	1,002,967	1,119,674	193,485	75,763	2,391,889
Total Net Position	\$ 2,976,066	\$ 1,519,887	\$ 200,789	\$ 75,763	\$ 4,772,505

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, 2020

Business-type Activities - Enterprise Funds

	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
OPERATING REVENUES					
Charges for Services	\$ 1,216,078	\$ 369,164	\$ 452,614	\$ 53,867	\$ 2,091,722
Miscellaneous	5,837	6,084	6,633	6,060	24,614
Total Operating Revenues	\$ 1,221,915	\$ 375,248	\$ 459,246	\$ 59,927	\$ 2,116,337
OPERATING EXPENSES					
Salaries and wages	\$ 127,156	\$ 82,174	\$ 35,068	\$ -	\$ 244,397
Health Insurance	19,861	12,273	5,292	-	37,426
Retirement	10,758	6,951	2,965	-	20,674
Unemployment	89	58	23	-	169
Legal Fees	-	100	-	-	100
Engineering Fees	11,127	-	-	-	11,127
Professional Fees	380	-	-	-	380
Training/Computer Support	-	15	-	-	15
Utilities	18,650	8,684	-	-	27,334
Meter Parts	9,260	-	-	-	9,260
Supplies	2,163	5,718	-	-	7,881
Repair/Maintenance	19,262	14,123	-	-	33,385
Office Supplies	7,449	4,173	3,371	447	15,441
Gas, Oil, Diesel Fuel	853	853	853	-	2,560
Machinery & Equipment	-	3,200	5,469	-	8,669
Miscellaneous Expense	50	-	-	7	57
Bismarck Water	599,617	-	-	-	599,617
Water Testing	4,512	-	-	-	4,512
Garbage	-	-	351,877	-	351,877
Street Lighting	-	-	-	33,974	33,974
Depreciation	73,319	37,552	1,001	-	111,872
Total Operating Expenses	\$ 904,507	\$ 175,872	\$ 405,919	\$ 34,429	\$ 1,520,727
Operating Income	\$ 317,408	\$ 199,376	\$ 53,327	\$ 25,498	\$ 595,609
NONOPERATING REVENUES (EXPENSES)					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense and Service Charges	(12,998)	-	-	-	(12,998)
Total Nonoperating Revenues (Expenses)	\$ (12,998)	\$ -	\$ -	\$ -	\$ (12,998)
Income (Loss) Before Contributions and Transfers	\$ 304,410	\$ 199,376	\$ 53,327	\$ 25,498	\$ 582,611
Transfers In	\$ 64,998	\$ -	\$ -	\$ -	\$ 64,998
Transfers Out	(64,998)	-	-	-	(64,998)
Change in Net Position	\$ 304,410	\$ 199,376	\$ 53,327	\$ 25,498	\$ 582,611
Net Position - January 1	\$ 2,622,049	\$ 1,297,565	\$ 121,157	\$ 46,115	\$ 4,086,886
Prior Period Adjustment	\$ 49,607	\$ 22,945	\$ 26,305	\$ 4,150	\$ 103,007
Net Position - January 1, As Restated	\$ 2,671,656	\$ 1,320,511	\$ 147,462	\$ 50,265	\$ 4,189,894
Net Position - December 31	\$ 2,976,066	\$ 1,519,887	\$ 200,789	\$ 75,763	\$ 4,772,505

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, 2020

	Business-type Activities - Enterprise Funds				
	Water Fund	Sewer Fund	Garbage Fund	Non Major Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	\$ 1,216,078	\$ 369,164	\$ 452,614	\$ 53,867	\$ 2,091,722
Payments to Suppliers	(673,324)	(36,865)	(361,571)	(34,429)	(1,106,189)
Payments to Employees	(157,864)	(101,455)	(43,347)	-	(302,666)
Other Receipts	5,837	6,084	6,633	6,060	24,614
Net Cash Provided (Used) by Operating Activities	\$ 390,727	\$ 236,928	\$ 54,328	\$ 25,498	\$ 707,481
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers In	\$ 64,998	\$ -	\$ -	\$ -	\$ 64,998
Operating Grant	-	-	-	-	-
Transfers Out	(64,998)	-	-	-	(64,998)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ -	\$ -	\$ -	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases and Construction of Capital Assets	\$ (549,760)	\$ (262,675)	\$ -	\$ -	\$ (812,435)
Principal Paid on Capital Debt	(52,000)	-	-	-	(52,000)
Interest and Fees Paid on Capital Debt	(12,998)	-	-	-	(12,998)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (614,758)	\$ (262,675)	\$ -	\$ -	\$ (877,433)
Net Increase (Decrease) in Cash & Cash Equivalents	\$ (224,031)	\$ (25,747)	\$ 54,328	\$ 25,498	\$ (169,952)
Cash and Cash Equivalents - January 1	\$ 1,229,641	\$ 1,122,475	\$ 112,852	\$ 46,115	\$ 2,511,084
Prior Period Adjustment	\$ 49,607	\$ 22,945	\$ 26,305	\$ 4,150	\$ 103,007
Cash and Cash Equivalents - January 1, as Restated	\$ 1,279,248	\$ 1,145,421	\$ 139,157	\$ 50,265	\$ 2,614,091
Cash and Cash Equivalents - December 31	\$ 1,055,217	\$ 1,119,674	\$ 193,485	\$ 75,763	\$ 2,444,139
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 317,408	\$ 199,376	\$ 53,327	\$ 25,498	\$ 595,609
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities					
Depreciation Expense	\$ 73,319	\$ 37,552	\$ 1,001	\$ -	\$ 111,872
Net Cash Provided (Used) by Operating Activities	\$ 390,727	\$ 236,928	\$ 54,328	\$ 25,498	\$ 707,481

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, 2021 and 2020

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, 2021, the City's carrying amount of deposits totaled \$6,098,399, and the bank balances totaled \$5,965,042. Of the bank balances, \$367,543 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, 2020, the City's carrying amount of deposits totaled \$4,332,358, and the bank balances totaled \$4,585,092. Of the bank balances, \$367,472 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 PRIOR PERIOD ADJUSTMENTS

Beginning net position and fund balance adjustments were necessary to restate cash.

Primary Government	General Fund	Special Revenue Fund	Debt Service Fund	Government Wide
Beginning Net Position/Fund Balance, as previously reported	\$ 454,823	\$ 574,506	\$ 602,854	\$ 4,905,357
Adjustments to restate the January 1, 2020 Net Position/Fund Balance:				
Cash	19,870	(8,870)	3,501	14,500
Net Position/Fund Balance January 1, as restated	\$ 474,693	\$ 565,636	\$ 606,355	\$ 4,919,857

Enterprise Funds	Water	Sewer	Garbage	Non Major	Total
Beginning Net Position, as previously reported	\$ 2,622,049	\$ 1,297,565	\$ 121,157	\$ 46,115	\$ 4,086,886
Adjustments to restate the January 1, 2020 Fund Balance:					
Cash	49,607	22,945	26,305	4,150	103,007
Net Position January 1, as restated	\$ 2,671,656	\$ 1,320,511	\$ 147,462	\$ 50,265	\$ 4,189,894

NOTE 4 PROPERTY TAXES

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

NOTE 5 TRANSFERS

No transfers were performed during 2021. The following transfers were performed during 2020:

	2020	
	Transfers In	Transfers Out
Business-Type Funds		
Water Fund	\$ 64,998	\$ (64,998)
Total Transfers	\$ 64,998	\$ (64,998)

Transfers are done primarily for the following reasons:

- Transfer money out of the Water Fund and into the Water Bond Fund to make payments on the Water Reservoir Revenue Bonds and on the 2018 Water Revenue Bonds.

NOTE 6 CAPITAL ASSETS**Governmental Activities**

The following is a summary of changes in capital assets for the years ended 2021 and 2020:

Governmental Activities	Balance 1/1/21	Increases	Decreases	Transfers	Balance 12/31/21
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ -	\$ 70,000	\$ -		\$ 70,000
Land	12,000	-	-	-	12,000
Total Capital Assets, Not Being Depreciated	\$ 12,000	\$ 70,000	\$ -	\$ -	\$ 82,000
<i>Capital assets, being depreciated</i>					
Buildings	\$ 2,120,144	\$ -	\$ -		\$ 2,120,144
Building Improvements	13,694	-	-	-	13,694
Furniture	29,339	-	-	-	29,339
Infrastructure Improvements	2,267,863	-	-	-	2,267,863
Machinery & Equipment	1,221,882	166,125	-	-	1,388,007
Total Capital Assets, Being Depreciated	\$ 5,652,922	\$ 166,125	\$ -	\$ -	\$ 5,819,047
<i>Less accumulated depreciation for</i>					
Buildings	\$ 213,956	\$ 42,403	\$ -	\$ -	\$ 256,359
Building Improvements	10,230	1,008	-	-	11,238
Furniture	25,065	610	-	-	25,675
Infrastructure Improvements	726,558	55,088	-	-	781,646
Machinery & Equipment	862,442	119,621	-	-	982,063
Total Accumulated Depreciation	\$ 1,838,251	\$ 218,730	\$ -	\$ -	\$ 2,056,981
Total Capital Assets Being Depreciated, Net	\$ 3,814,671	\$ (52,605)	\$ -	\$ -	\$ 3,762,066
Total Capital Assets, Net	\$ 3,826,671	\$ 17,395	\$ -	\$ -	\$ 3,844,066

Governmental Activities	Balance 1/1/20	Increases	Decreases	Transfers	Balance 12/31/20
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 852,942	\$ 672,407	\$ -	\$ (1,525,349)	\$ -
Land	12,000	-	-	-	12,000
Total Capital Assets, Not Being Depreciated	\$ 864,942	\$ 672,407	\$ -	\$ (1,525,349)	\$ 12,000
<i>Capital assets, being depreciated</i>					
Buildings	\$ 594,795	\$ -	\$ -	\$ 1,525,349	\$ 2,120,144
Building Improvements	13,694	-	-	-	13,694
Furniture	29,339	-	-	-	29,339
Infrastructure Improvements	2,267,863	-	-	-	2,267,863
Machinery & Equipment	1,130,796	91,086	-	-	1,221,882
Total Capital Assets, Being Depreciated	\$ 4,036,487	\$ 91,086	\$ -	\$ 1,525,349	\$ 5,652,922
<i>Less accumulated depreciation for</i>					
Buildings	\$ 171,553	\$ 42,403	\$ -	\$ -	\$ 213,956
Building Improvements	9,223	1,007	-	-	10,230
Furniture	24,455	610	-	-	25,065
Infrastructure Improvements	671,470	55,088	-	-	726,558
Machinery & Equipment	751,554	110,888	-	-	862,442
Total Accumulated Depreciation	\$ 1,628,255	\$ 209,996	\$ -	\$ -	\$ 1,838,251
Total Capital Assets Being Depreciated, Net	\$ 2,408,232	\$ (118,910)	\$ -	\$ 1,525,349	\$ 3,814,671
Total Capital Assets, Net	\$ 3,273,174	\$ 553,497	\$ -	\$ -	\$ 3,826,671

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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

Governmental Activities	2021	2020
General Government	\$ 12,674	\$ 12,674
Public Works	190,101	176,170
Public Safety	15,955	21,152
Total Depreciation Expense	\$ 218,730	\$ 209,996

Business-Type ActivitiesWater Fund

The following is a summary of changes in capital assets for the years ended 2021 and 2020:

Business-Type Activity - Water Fund	Balance 1/1/21	Increases	Decreases	Transfers	Balance 12/31/21
<i>Capital assets not being depreciated</i>					
Land	\$ 10,766	\$ -	\$ -	\$ -	\$ 10,766
Total Capital Assets, Not Being Depreciated	\$ 10,766	\$ -	\$ -	\$ -	\$ 10,766
<i>Capital assets, being depreciated</i>					
Infrastructure	\$ 2,567,192	\$ -	\$ -		\$ 2,567,192
Buildings	354,435	-	-	-	354,435
Machinery & Equipment	1,470,536	-	-	-	1,470,536
Total Capital Assets, Being Depreciated	\$ 4,392,163	\$ -	\$ -	\$ -	\$ 4,392,163
<i>Less accumulated depreciation for</i>					
Infrastructure	\$ 51,344	\$ 51,344	\$ -	\$ -	\$ 102,688
Buildings	285,194	7,089	-	-	292,283
Machinery & Equipment	1,416,251	14,886	-	-	1,431,137
Total Accumulated Depreciation	\$ 1,752,789	\$ 73,319	\$ -	\$ -	\$ 1,826,108
Total Capital Assets Being Depreciated, Net	\$ 2,639,374	\$ (73,319)	\$ -	\$ -	\$ 2,566,055
Total Capital Assets, Net	\$ 2,650,140	\$ (73,319)	\$ -	\$ -	\$ 2,576,821

Business-Type Activity - Water Fund	Balance 1/1/20	Increases	Decreases	Transfers	Balance 12/31/20
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 2,017,430	\$ 549,762	\$ -	\$ (2,567,192)	\$ -
Land	10,766	-	-	-	10,766
Total Capital Assets, Not Being Depreciated	\$ 2,028,196	\$ 549,762	\$ -	\$ (2,567,192)	\$ 10,766
<i>Capital assets, being depreciated</i>					
Infrastructure	\$ -	\$ -	\$ -	\$ 2,567,192	\$ 2,567,192
Buildings	354,435	-	-	-	354,435
Machinery & Equipment	1,470,536	-	-	-	1,470,536
Total Capital Assets, Being Depreciated	\$ 1,824,971	\$ -	\$ -	\$ 2,567,192	\$ 4,392,163
<i>Less accumulated depreciation for</i>					
Infrastructure	\$ -	\$ 51,344	\$ -	\$ -	\$ 51,344
Buildings	278,105	7,089	-	-	285,194
Machinery & Equipment	1,401,364	14,887	-	-	1,416,251
Total Accumulated Depreciation	\$ 1,679,469	\$ 73,320	\$ -	\$ -	\$ 1,752,789
Total Capital Assets Being Depreciated, Net	\$ 145,502	\$ (73,320)	\$ -	\$ 2,567,192	\$ 2,639,374
Total Capital Assets, Net	\$ 2,173,698	\$ 476,442	\$ -	\$ -	\$ 2,650,140

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 2021 and 2020:

Business-Type Activity - Sewer Fund	Balance 1/1/21	Increases	Decreases	Transfers	Balance 12/31/21
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ 14,000	\$ 294,276	\$ -	\$ -	\$ 308,276
Land	25,000	-	-	-	25,000
Total Capital Assets, Not Being Depreciated	\$ 39,000	\$ 294,276	\$ -	\$ -	\$ 333,276
<i>Capital assets, being depreciated</i>					
Infrastructure	\$ 432,090	\$ -	\$ -		\$ 432,090
Machinery & Equipment	119,859	-	-	-	119,859
Total Capital Assets, Being Depreciated	\$ 551,949	\$ -	\$ -	\$ -	\$ 551,949
<i>Less accumulated depreciation for</i>					
Infrastructure	\$ 124,169	\$ 23,822	\$ -		\$ 147,991
Machinery & Equipment	66,567	12,953	-	-	79,520
Total Accumulated Depreciation	\$ 190,736	\$ 36,775	\$ -	\$ -	\$ 227,511
Total Capital Assets Being Depreciated, Net	\$ 361,213	\$ (36,775)	\$ -	\$ -	\$ 324,438
Total Capital Assets, Net	\$ 400,213	\$ 257,501	\$ -	\$ -	\$ 657,714

Business-Type Activity - Sewer Fund	Balance 1/1/20	Increases	Decreases	Transfers	Balance 12/31/20
<i>Capital assets not being depreciated</i>					
Construction in Progress	\$ -	\$ 14,000	\$ -	\$ -	\$ 14,000
Land	25,000	-	-	-	25,000
Total Capital Assets, Not Being Depreciated	\$ 25,000	\$ 14,000	\$ -	\$ -	\$ 39,000
<i>Capital assets, being depreciated</i>					
Infrastructure	\$ 217,090	\$ 215,000	\$ -		\$ 432,090
Machinery & Equipment	86,184	33,675	-	-	119,859
Total Capital Assets, Being Depreciated	\$ 303,274	\$ 248,675	\$ -	\$ -	\$ 551,949
<i>Less accumulated depreciation for</i>					
Infrastructure	\$ 100,347	\$ 23,822	\$ -		\$ 124,169
Machinery & Equipment	52,837	13,730	-	-	66,567
Total Accumulated Depreciation	\$ 153,184	\$ 37,552	\$ -	\$ -	\$ 190,736
Total Capital Assets Being Depreciated, Net	\$ 150,090	\$ 211,123	\$ -	\$ -	\$ 361,213
Total Capital Assets, Net	\$ 175,090	\$ 225,123	\$ -	\$ -	\$ 400,213

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 2021 and 2020:

Business-Type Activity - Garbage Fund	Balance 1/1/21	Increases	Decreases	Balance 12/31/21
<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	\$ 5,023	\$ 295	\$ -	\$ 5,318
Machinery & Equipment	8,171	706	-	8,877
Total Accumulated Depreciation	\$ 13,194	\$ 1,001	\$ -	\$ 14,195
Total Capital Assets Being Depreciated, Net	\$ 7,304	\$ (1,001)	\$ -	\$ 6,303
Total Capital Assets, Net	\$ 7,304	\$ (1,001)	\$ -	\$ 6,303

Business-Type Activity - Garbage Fund	Balance 1/1/20	Increases	Decreases	Balance 12/31/20
<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	\$ 4,728	\$ 295	\$ -	\$ 5,023
Machinery & Equipment	7,465	706	-	8,171
Total Accumulated Depreciation	\$ 12,193	\$ 1,001	\$ -	\$ 13,194
Total Capital Assets Being Depreciated, Net	\$ 8,305	\$ (1,001)	\$ -	\$ 7,304
Total Capital Assets, Net	\$ 8,305	\$ (1,001)	\$ -	\$ 7,304

Depreciation expense was charged to the Garbage function.

NOTE 7 LONG-TERM LIABILITIES**Business-Type Activities**

The following changes occurred in long-term liabilities for the years ended 2021 and 2020:

	Balance 1/1/21	Increases	Decreases	Balance 12/31/21	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 729,291	\$ 115,909	\$ 52,000	\$ 793,200	\$ 52,000

	Balance 1/1/20	Increases	Decreases	Balance 12/31/20	Due Within One Year
Long-Term Debt					
Revenue Bonds Payable	\$ 781,291	\$ -	\$ 52,000	\$ 729,291	\$ 52,000

CITY OF LINCOLN

Notes to the Financial Statements – Continued

The annual requirements to amortize the outstanding long-term debt at December 31, 2021 is as follows:

PRIMARY GOVERNMENT		
Enterprise Activities		
Year Ending December 31	Revenue Bonds Payable	
	Principal	Interest
2022	52,000	12,598
2023	52,000	11,648
2024	53,000	10,698
2025	58,000	9,723
2026	40,000	8,673
2027 - 2031	205,000	34,365
2032 - 2036	225,000	18,240
2037 - 2041	108,200	2,619
Total	\$ 793,200	\$ 108,564

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 2021 is \$112,800.

NOTE 8 PENSION PLAN

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**Main System**

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.

Law Enforcement System (With prior main system service)

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement 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 (55) with three or more years of service. 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 first enrolled in the plan after December 31, 2019 the multiplier was reduced from 2.0% to 1.75%. The plan permits early retirement at ages 50-55 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 (Main and Law Enforcement Systems)

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System or Law Enforcement 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 or Law Enforcement 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 for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance***Main System***

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

Law Enforcement System

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions***Main System***

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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

Law Enforcement System

Member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	9.81%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

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

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

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

At December 31, 2021 and 2020, the City's proportionate share of the net pension liability was as follows:

	Net Pension Liability - 2021	Net Pension Liability - 2020
Main System	\$ 225,710	\$ 918,418
Law Enforcement System	108,211	452,090

The net pension liability was measured as of June 30, 2021 and 2020 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 and law enforcement system pension plan relative to the covered payroll of all participating main system and law enforcement system employers. At June 30, 2021 and 2020, the City's proportion was as follows:

	Proportion	Increase (Decrease) In Proportion from June 30, 2020 Measurement	Pension Expense
2021			
Main System	0.021655%	-0.007538%	\$ (20,181)
Law Enforcement System	0.652994%	-0.036716%	6,364

CITY OF LINCOLN

Notes to the Financial Statements – Continued

2020	Proportion	Increase (Decrease) In Proportion from June 30, 2019 Measurement	Pension Expense
Main System	0.029193%	-0.027500%	\$ 125,066
Law Enforcement System	0.689710%	0.689710%	105,926

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

Actuarial Assumptions

The total pension liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Main and Law Enforcement System

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

Main and Law Enforcement System

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.00%
International Equity	21%	6.70%
Private Equity	7%	9.50%
Domestic Fixed Income	23%	0.73%
International Fixed Income	0%	0.00%
Global Real Assets	19%	4.77%
Cash Equivalents	0%	0.00%

Discount rate (Main and Law Enforcement Systems)

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

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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 7.00%; the municipal bond rate is 1.92%; and the resulting Single Discount Rate is 7.00%.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Main System	\$ 358,955	\$ 225,710	\$ 114,763
Law Enforcement System	253,267	108,211	(8,191)

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, 2021 and 2020, the City's proportionate share of the net OPEB liability was as follows:

	Net OPEB Liability - 2021	Net OPEB Liability - 2022
Main System	\$ 30,957	\$ 46,861

The net OPEB liability was measured as of June 30, 2021 and 2020, 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, 2021 and 2020, the City's proportion

		Increase (Decrease) In Proportion from June 30, 2020 Measurement	OPEB Expense
2021	Proportion		
Main System	0.055660%	-0.000048%	\$ 5,282

		Increase (Decrease) In Proportion from June 30, 2019 Measurement	OPEB Expense
2020	Proportion		
Main System	0.055708%	0.002861%	\$ 7,990

CITY OF LINCOLN

Notes to the Financial Statements – Continued

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, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	Not applicable
Investment Rate of Return	6.50%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

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, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	5.85%
Small Cap Domestic Equities	6%	6.75%
Domestic Fixed Income	40%	0.50%
International Equities	21%	6.25%

Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory rates described in this report. 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, 2021, calculated using the discount rate of 6.50%, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Proportionate Share of the Net OPEB Liability	\$ 45,913	\$ 30,957	\$ 18,302

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 DEFICIT FUND BALANCE

The City had the following deficit fund balances at December 31, 2021 and 2020:

	2021	2020
Special Revenue Fund		
Highway Distribution Fund	\$ (715,186)	\$ (535,103)

The City plans to eliminate these deficits with future revenue collections or through transfers from other funds.

NOTE 12 SUBSEQUENT EVENTS

During 2022, the city drew down an additional \$41,800 on its \$836,000 Water Revenue Bonds, Series 2018.

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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 1,008,393	\$ 1,008,393	\$ 989,128	\$ (19,265)
Licenses, Permits and Fees	43,225	43,225	68,360	25,135
Charges for Services	40,000	40,000	36,754	(3,246)
Intergovernmental	325,706	325,706	412,906	87,200
Interest	22,000	22,000	18,455	(3,545)
Miscellaneous	1,200	1,200	34,023	32,823
Total Revenues	<u>\$ 1,440,524</u>	<u>\$ 1,440,524</u>	<u>\$ 1,559,626</u>	<u>\$ 119,102</u>
EXPENDITURES				
Current				
General Government	\$ 633,500	\$ 633,500	\$ 502,180	\$ 131,320
Public Safety	745,507	745,507	730,862	14,645
Total Expenditures	<u>\$ 1,379,007</u>	<u>\$ 1,379,007</u>	<u>\$ 1,233,042</u>	<u>\$ 145,965</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 61,517</u>	<u>\$ 61,517</u>	<u>\$ 326,584</u>	<u>\$ 265,067</u>
Net Change in Fund Balances	<u>\$ 61,517</u>	<u>\$ 61,517</u>	<u>\$ 326,584</u>	<u>\$ 265,067</u>
Fund Balances - January 1	<u>\$ 824,512</u>	<u>\$ 824,512</u>	<u>\$ 824,512</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 886,029</u></u>	<u><u>\$ 886,029</u></u>	<u><u>\$ 1,151,096</u></u>	<u><u>\$ 265,067</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, 2021

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Tax	\$ 20,056	\$ 20,056	\$ 41,697	\$ 21,641
Sales Tax	133,000	133,000	209,000	76,000
Intergovernmental	146,549	146,549	166,811	20,261
Miscellaneous	-	-	252	252
Total Revenues	\$ 299,605	\$ 299,605	\$ 417,760	\$ 118,154
EXPENDITURES				
Current				
General Government	\$ 156,500	\$ 156,500	\$ 141,719	\$ 14,781
Public Works	339,284	339,284	290,990	48,293
Public Safety	-	-	53	(53)
Culture & Recreation	74,000	74,000	4,215	69,785
Total Expenditures	\$ 569,784	\$ 569,784	\$ 436,978	\$ 132,806
Excess (Deficiency) of Revenues Over Expenditures	\$ (270,179)	\$ (270,179)	\$ (19,219)	\$ 250,960
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 190,134	\$ 190,134	\$ -	\$ (190,134)
Net Change in Fund Balances	\$ (80,044)	\$ (80,044)	\$ (19,219)	\$ 60,825
Fund Balances - January 1	\$ 410,511	\$ 410,511	\$ 410,511	\$ -
Fund Balances - December 31	\$ 330,467	\$ 330,467	\$ 391,292	\$ 60,825

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, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Taxes	\$ 912,174	\$ 912,174	\$ 918,398	\$ 6,224
Licenses, Permits and Fees	43,475	43,475	58,537	15,062
Charges for Services	40,000	40,000	33,829	(6,171)
Intergovernmental	309,878	309,878	518,144	208,266
Interest	50,000	50,000	29,047	(20,953)
Miscellaneous	1,000	1,000	3,349	2,349
Total Revenues	<u>\$ 1,356,527</u>	<u>\$ 1,356,527</u>	<u>\$ 1,561,304</u>	<u>\$ 204,777</u>
EXPENDITURES				
Current				
General Government	\$ 577,824	\$ 577,824	\$ 495,386	\$ 82,438
Public Safety	725,773	725,773	716,099	9,674
Total Expenditures	<u>\$ 1,303,597</u>	<u>\$ 1,303,597</u>	<u>\$ 1,211,485</u>	<u>\$ 92,112</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 52,930</u>	<u>\$ 52,930</u>	<u>\$ 349,819</u>	<u>\$ 296,889</u>
Net Change in Fund Balances	<u>\$ 52,930</u>	<u>\$ 52,930</u>	<u>\$ 349,819</u>	<u>\$ 296,889</u>
Fund Balances - January 1	<u>\$ 454,823</u>	<u>\$ 454,823</u>	<u>\$ 454,823</u>	<u>\$ -</u>
Fund Balances - December 31	<u><u>\$ 507,753</u></u>	<u><u>\$ 507,753</u></u>	<u><u>\$ 824,512</u></u>	<u><u>\$ 316,759</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, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property Tax	\$ 24,912	\$ 24,912	\$ 37,490	\$ 12,578
Sales Tax	110,000	110,000	151,253	41,253
Intergovernmental	154,263	154,263	641,911	487,649
Miscellaneous	-	-	1,347	1,347
Total Revenues	\$ 289,175	\$ 289,175	\$ 832,001	\$ 542,826
EXPENDITURES				
Current				
General Government	\$ 120,000	\$ 120,000	\$ 126,997	\$ (6,997)
Public Works	335,917	335,917	199,066	136,851
Culture & Recreation	18,750	18,750	10,553	8,197
Capital Outlay	-	-	650,509	(650,509)
Total Expenditures	\$ 474,667	\$ 474,667	\$ 987,125	\$ (512,458)
Excess (Deficiency) of Revenues Over Expenditures	\$ (185,492)	\$ (185,492)	\$ (155,124)	\$ 30,368
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ 181,654	\$ 181,654	\$ -	\$ (181,654)
Net Change in Fund Balances	\$ (3,838)	\$ (3,838)	\$ (155,124)	\$ (151,286)
Fund Balances - January 1	\$ 574,506	\$ 574,506	\$ 574,506	\$ -
Fund Balances - December 31	\$ 570,668	\$ 570,668	\$ 410,511	\$ (160,156)

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, 2021 and 2020

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 2021 and 2020 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, 2020, 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, 2021, 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, 2021 as the City of Lincoln did not maintain accurate accounting records for cash and expenditures 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, 2020 because the City did not maintain supporting documentation related to the prior period adjustments to the city water, sewer, garbage, and non-major funds.

Report on 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) as a basis for designing 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 2021-001 through 2021-005, 2021-007, and 2021-008 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 2021-006 to be a significant deficiency.

Report on 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 financial statements. 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 2021-005.

City of Lincoln's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Lincoln's response to the findings identified in our audit and described in the accompanying *schedule of audit findings*. The City of Lincoln's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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, 2021 and 2020

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, 2021 and 2020

2021-001 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 2020 and 2021, 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.

2021-002 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.

2021-003 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.

2021-004 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

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

- Two capital asset additions totaling \$55,000
- 10 out of 35 expenditures totaling \$10,622.28. Subsequent to discovering the missing invoices, the City was able to contact the vendors and obtain support for one expenditure, resulting in a remaining unsupported total of \$622.28. These errors projected to the population result in a potential error of \$20,835
- Titles for five vehicle capital asset additions totaling \$173,841
- For 2020, during a search for capital assets it was noted that two expenditures totaling \$21,087 were missing invoices.
- For 2021, during a search for capital assets it was noted that five expenditures totaling \$54,921 were missing invoices.
- Prior period adjustments totaling \$117,507 across all funds.

We were able to perform alternate procedures to verify that the City of Lincoln had the assets associated with the two capital asset additions and titles for five 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. The unsupported 2020 prior period adjustments and the 2021 missing invoices led to a qualified opinion for 2020 over business-type activities, water fund, sewer fund, garbage fund, and aggregate remaining fund information and a disclaimer of opinion over the 2021 financial statements.

Cause

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

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, all expenditures, special assessments, and prior period adjustments.

City of Lincoln's Response

We agree. We now have a better filing system for maintaining all invoices, both paper and digital.

2021-005 LACK OF ESTIMATED BUDGETED CASH – MATERIAL WEAKNESS AND MATERIAL NONCOMPLIANCE

Condition

The City of Lincoln did not include estimated cash amounts in the 2021 and 2020 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.

2021-006 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.

2021-007 UNDEPOSITED CLERK OF COURT FEES – MATERIAL WEAKNESS

Condition

We were unable to trace clerk of court fees to the city's general fund in the amount of \$14,052, with a total projected error of \$18,525. These errors consisted of:

- \$13,752 which was tested as part of a bonding claim filed with NDIRF
- An additional \$300 resulting from 1 out of 6 items tested. This error projected to the tested population resulted in a potential error of \$4,773.

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 proper 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

Yes.

Recommendation

We recommend the City of Lincoln strengthen policies and procedures to ensure all clerk of court fees collected by the city are deposited and recorded 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.

2021-008 BANK RECONCILIATION ERRORS – MATERIAL WEAKNESS

Condition

Testing of bank reconciliations performed by the City of Lincoln identified the following weaknesses:

- Bank reconciliations for 2021 were not performed until June 2022.
- The general ledger cash amounts for December 31, 2021, were higher than the bank reconciliation cash by a net difference of \$208,089.

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. The \$208,089 net difference led to a disclaimer of opinion over the 2021 financial statements.

Cause

The City of Lincoln may not have been aware of how to correct the bank reconciliation errors.

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. Bank reconciliations are now completed monthly and reviewed/approved by council.



GOVERNANCE COMMUNICATION

November 21, 2023

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, 2020, 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, 2021, 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.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Lincoln are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the City of Lincoln during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements 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 governmental activities financial statements were:

Management's estimate of the useful lives of capital assets is based on past history of each classification of capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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 \$208,089 for 2021.
- For 2021, during a search for capital assets it was noted that five expenditures totaling \$54,921 were missing invoices.
- The City of Lincoln did not maintain supporting documentation related to prior period adjustments for the city water, sewer, garbage, and non-major enterprise funds during 2020. Due to the lack of supporting

documentation, the prior period adjustments could not be verified for accuracy. Prior period adjustments for these funds totaled \$103,007.

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.

2021	<u>Debit</u>	<u>Credit</u>
Government Fund Adjustments		
<i>General Fund</i>		
<u>To correct revenues coded as expenditures</u>		
Expenditures	2,644	-
Revenues	-	2,644
 <u>To correct double entered revenues</u>		
Revenues	11,031	-
Cash	-	11,031
 2020	 <u>Debit</u>	 <u>Credit</u>
Government Fund Adjustments		
<i>General Fund</i>		
<u>To correct revenues coded as expenditures</u>		
Expenditures	4,519	-
Revenues	-	4,519

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

CITY OF LINCOLN
Governance Communication - Continued

	<u>Debit</u>	<u>Credit</u>
2021		
		Government Wide
<u>To Adjust Capital Assets</u>		
Capital Assets	266,557	-
Expenditures	-	72,755
Beginning Net Position	-	193,802
		General Fund
<u>To Reverse Revenue and Expenditure from opening Prairie Dog checking</u>		
Revenue	500,000	-
Expenditure	-	500,000
<u>To Remove 2022 expenditure in 2021</u>		
Cash	6,282	-
Expenditures	-	6,282
		Special Revenue Fund
<u>Carryover Adjustment To Move Prairie Dog Funds from Water Fund to Special Revenue Fund</u>		
Cash	500,000	-
Fund Balance	-	500,000
<u>To Reverse Due to Liability</u>		
Cash	179,296	-
Due to Other Funds	-	179,296
<u>To Reverse Double Entered Check</u>		
Cash	56,155	-
Expenditures	-	56,155
<u>To Remove 2022 expenditure in 2021</u>		
Cash	14,434	-
Expenditures	-	14,434
<u>Enterprise Funds</u>		
		Water Fund
<u>To Adjust Capital Assets</u>		
Capital Assets	359,225	-
Expenditures	12,891	-
Beginning Net Position	-	372,116
<u>Carryover Adjustment To Move Prairie Dog Funds from Water Fund to Special Revenue Fund</u>		
Fund Balance	500,000	-
Cash	-	500,000
<u>To Move Cash to Restricted Cash</u>		
Resticted Cash and Investments	52,250	-
Cash and Investments	-	52,250
		Sewer Fund
<u>To Adjust Capital Assets</u>		
Capital Assets	43,939	-
Expenditures	-	1,075
Beginning Net Position	-	42,864

	<u>Debit</u>	<u>Credit</u>
2020		
	Government Wide	
<u>To Adjust Capital Assets</u>		
Capital Assets	193,802	-
Expenditures	-	38,840
Beginning Net Position	-	154,962
	Special Revenue Fund	
<u>To Move Prairie Dog Funds from Water Fund to Special Revenue Fund</u>		
Cash	500,000	-
Fund Balance	-	500,000
<u>To Reverse PPA and add Expenditure</u>		
Expenditures	294,801	-
Prior Period Adjustment	-	294,801
<u>To Reverse Due to Liability</u>		
Cash	89,489	-
Due to Other Funds	-	89,489

Enterprise Funds

Water Fund

To Adjust Capital Assets

Capital Assets	372,116	-
Expenditures	-	21,574
Beginning Net Position	-	350,542

To Move Prairie Dog Funds from Water Fund to Special Revenue Fund

Fund Balance	500,000	-
Cash	-	500,000

To Move Cash to Restricted Cash

Resticted Cash and Investments	52,250	-
Cash and Investments	-	52,250

Sewer Fund

To Adjust Capital Assets

Capital Assets	42,864	-
Expenditures	4,811	-
Beginning Net Position	-	47,675

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 of Lincoln's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

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 2021. 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 2020 because the City did not maintain supporting documentation for prior period adjustments for the city water, sewer, garbage, and non-major enterprise funds during 2020 as explained in the *Difficulties Encountered in Performing the Audit* paragraph.

Other Matters

We were engaged to report on the *budgetary comparison schedules* and *notes to the supplementary information*, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. Because of the significance of the matter described above in the *Difficulties Encountered in Performing the Audit* paragraph, it is inappropriate to, and we do not express an opinion on the 2021 supplementary information referred to above.

Restriction on Use

This information is intended solely for the use of the City of Lincoln Council members 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

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