

CITY OF BOTTINEAU
Bottineau, North Dakota

AUDIT REPORT
For the Years Ended
December 31, 2015 and 2014

LERVIK
&
JOHNSON

Certified Public Accountants

CITY OF BOTTINEAU
Bottineau, North Dakota

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CITY OF BOTTINEAU
Bottineau, North Dakota

CITY OFFICIALS

December 31, 2015

| <u>Official</u> | <u>Position</u> |
|-----------------|-----------------|
| Ben Aufforth | Mayor |
| Cathy Claeys | Council Member |
| Greg Bernstein | Council Member |
| Harlan Getzlaff | Council Member |
| Launee Hammes | Council Member |
| Diane Lorenz | Council Member |
| Gary Mortenson | Council Member |
| Tim Sanderson | Council Member |
| Matt Seykora | Council Member |
| | |
| Penny Nostdahl | City Auditor |

December 31, 2014

| <u>Official</u> | <u>Position</u> |
|-----------------|-----------------|
| Ben Aufforth | Mayor |
| Cathy Claeys | Council Member |
| Greg Bernstein | Council Member |
| Harlan Getzlaff | Council Member |
| Launee Hammes | Council Member |
| Diane Lorenz | Council Member |
| Gary Mortenson | Council Member |
| Tim Sanderson | Council Member |
| Matt Seykora | Council Member |
| | |
| Penny Nostdahl | City Auditor |

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City Council
City of Bottineau
Bottineau, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bottineau, North Dakota, as of and for the years ended December 31, 2015 and 2014, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bottineau, North Dakota, as of December 31, 2015 and 2014, and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Required Supplementary Information

The City of Bottineau has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 42-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, if required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated July 31, 2017, on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Bottineau's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants

July 31, 2017

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
December 31, 2015

| | Primary Government | | | Component Units | |
|---|----------------------------|--------------------------------|-------------------------|--------------------------------------|-----------------------------------|
| | Governmental Activities | Business Type Activities | Total | Bottineau Recreational Council | Bottineau Airport Authority |
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and Investments | \$ 7,345,425.68 | \$ 1,633,869.41 | \$ 8,979,295.09 | \$ 26,199.13 | \$ 153,222.89 |
| Loans Receivable, Current Portion | 106,987.82 | - | 106,987.82 | - | - |
| Total Current Assets | 7,452,413.50 | 1,633,869.41 | 9,086,282.91 | 26,199.13 | 153,222.89 |
| Noncurrent Assets: | | | | | |
| Restricted Cash | 207,000.00 | - | 207,000.00 | - | - |
| Loans Receivable, Net of Current Portion | 534,229.91 | - | 534,229.91 | - | - |
| Capital Assets, Net of Accumulated Depreciation | 11,561,830.92 | 7,805,947.51 | 19,367,778.43 | 118,679.17 | 3,285,962.04 |
| Total Noncurrent Assets | 12,303,060.83 | 7,805,947.51 | 20,109,008.34 | 118,679.17 | 3,285,962.04 |
| Total Assets | \$ 19,755,474.33 | \$ 9,439,816.92 | \$ 29,195,291.25 | \$ 144,878.30 | \$ 3,439,184.93 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | | |
| Unamortized Deferred Loss on Bond Refunding | \$ 43,769.38 | \$ - | \$ 43,769.38 | \$ - | \$ - |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| Current Portion of Bonds Payable | \$ 295,000.00 | \$ 37,000.00 | \$ 332,000.00 | \$ - | \$ - |
| Noncurrent Liabilities: | | | | | |
| Bonds Payable, Net of Current Portion | 2,445,000.00 | 378,000.00 | 2,823,000.00 | - | - |
| Discount on Bonds Payable | (39,538.75) | - | (39,538.75) | - | - |
| | 2,405,461.25 | 378,000.00 | 2,783,461.25 | - | - |
| Compensated Absences | 48,294.74 | - | 48,294.74 | - | - |
| Total Noncurrent Liabilities | 2,453,755.99 | 378,000.00 | 2,831,755.99 | - | - |
| Total Liabilities | \$ 2,748,755.99 | \$ 415,000.00 | \$ 3,163,755.99 | \$ - | \$ - |
| NET POSITION: | | | | | |
| Net Investment in Capital Assets | \$ 8,905,139.05 | \$ 7,390,947.51 | \$ 16,296,086.56 | \$ 118,679.17 | \$ 3,285,962.04 |
| Restricted for: | | | | | |
| Capital Projects | 343,846.86 | - | 343,846.86 | - | - |
| Debt Service | 207,000.00 | - | 207,000.00 | - | - |
| Special Purposes | 230,595.07 | - | 230,595.07 | - | - |
| Unrestricted | 7,363,906.74 | 1,633,869.41 | 8,997,776.15 | 26,199.13 | 153,222.89 |
| Total Net Position | \$ 17,050,487.72 | \$ 9,024,816.92 | \$ 26,075,304.64 | \$ 144,878.30 | \$ 3,439,184.93 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
For the Year Ended December 31, 2015

| FUNCTIONS/PROGRAMS | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | | Component Units | |
|---|------------------------|------------------------|----------------------------------|---|-------------------------|--------------------------|-------------------------|------------------------|
| | Expenses | Charges for Services | Capital Grants and Contributions | Operating Grants and Contributions | Primary Government | | Recreational Council | Airport Authority |
| | | | | | Governmental Activities | Business Type Activities | | |
| PRIMARY GOVERNMENT: | | | | | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | | |
| General Government | \$ 737,914.22 | \$ 75,018.83 | - | - | \$ (662,895.39) | \$ - | \$ (662,895.39) | |
| Public Safety | 461,107.18 | 24,617.99 | - | - | (436,489.19) | - | (436,489.19) | |
| Public Works | 458,989.70 | 59,087.07 | - | - | (399,902.63) | - | (399,902.63) | |
| Culture and Recreation | 200,301.29 | - | - | - | (200,301.29) | - | (200,301.29) | |
| Economic Development | 168,136.85 | - | - | - | (168,136.85) | - | (168,136.85) | |
| Other | 97,744.09 | - | - | - | (97,744.09) | - | (97,744.09) | |
| Interest and Service Charges | 90,932.00 | - | - | - | (90,932.00) | - | (90,932.00) | |
| Total Governmental Activities | 2,215,125.33 | 158,723.89 | - | - | (2,056,401.44) | - | (2,056,401.44) | |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | | |
| Water | 375,613.00 | 525,440.33 | 200,000.00 | - | 349,827.33 | 349,827.33 | 349,827.33 | |
| Sewer | 160,668.07 | 173,793.56 | 200,000.00 | - | 213,125.49 | 213,125.49 | 213,125.49 | |
| Garbage | 382,922.72 | 392,814.81 | - | - | 9,892.09 | 9,892.09 | 9,892.09 | |
| Total Business-Type Activities | 919,203.79 | 1,092,048.70 | 400,000.00 | - | 572,844.91 | 572,844.91 | 572,844.91 | |
| Total Primary Government | \$ 3,134,329.12 | \$ 1,250,772.59 | \$ 400,000.00 | \$ - | (2,056,401.44) | 572,844.91 | (1,483,556.53) | |
| COMPONENT UNITS: | | | | | | | | |
| Recreational Council | \$ 82,009.58 | \$ 11,015.53 | \$ - | \$ 63,750.00 | | | \$ (7,244.05) | \$ (102,473.70) |
| Airport Authority | 154,287.12 | 47,219.59 | 5,303.83 | - | | | (7,244.05) | (102,473.70) |
| Total Component Units | \$ 237,006.70 | \$ 58,235.12 | \$ 5,303.83 | \$ 63,750.00 | | | (7,244.05) | (102,473.70) |
| General Revenues and Transfers: | | | | | | | | |
| Property Taxes | | | | | 619,823.41 | - | - | 71,224.25 |
| Unrestricted Grants and Contributions | | | | | 4,392,955.41 | - | - | - |
| City Sales Tax | | | | | 1,186,547.91 | - | - | - |
| Earnings on Investments | | | | | 59,791.24 | - | - | 128.06 |
| Miscellaneous Revenues | | | | | 146,704.23 | - | - | - |
| Transfers | | | | | (974,355.05) | 974,355.05 | - | - |
| Total General Revenues and Transfers | | | | | 5,431,467.15 | 974,355.05 | 6,405,822.20 | 71,352.31 |
| Change in Net Position | | | | | 3,375,065.71 | 1,547,199.96 | 4,922,265.67 | (7,244.05) |
| Net Position - January 1 | | | | | 13,675,422.01 | 7,477,616.96 | 21,153,038.97 | 152,122.35 |
| Net Position - December 31 | | | | | \$ 17,050,487.72 | \$ 9,024,816.92 | \$ 26,075,304.64 | \$ 144,878.30 |
| | | | | | | | | \$ 3,439,184.93 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2015

| | Major Funds | | | | | Totals |
|--|------------------------|----------------------|------------------------|----------------------|------------------------|------------------------|
| | General | Fire Department | Paving Reserve | Streets | Sales Tax 40% | |
| ASSETS: | | | | | | |
| Cash and Investments | \$ 3,314,111.80 | \$ 182,722.96 | \$ 1,386,675.48 | \$ 390,972.63 | \$ 624,240.37 | \$ 7,552,425.68 |
| Loans Receivable | - | - | - | - | 641,217.73 | 641,217.73 |
| Total Assets | \$ 3,314,111.80 | \$ 182,722.96 | \$ 1,386,675.48 | \$ 390,972.63 | \$ 1,265,458.10 | \$ 8,193,643.41 |
| LIABILITIES AND FUND BALANCES: | | | | | | |
| Liabilities: | | | | | | |
| | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund Balances: | | | | | | |
| Nonspendable Fund Balance | - | - | - | - | 641,217.73 | 641,217.73 |
| Restricted Fund Balance | - | - | - | - | - | 781,441.93 |
| Committed Fund Balance | 1,989,907.64 | 182,722.96 | 1,386,675.48 | 390,972.63 | 624,240.37 | 5,446,779.59 |
| Unassigned Fund Balance | 1,324,204.16 | - | - | - | - | 1,324,204.16 |
| Total Fund Balances | 3,314,111.80 | 182,722.96 | 1,386,675.48 | 390,972.63 | 1,265,458.10 | 8,193,643.41 |
| Total Liabilities and Fund Balances | \$ 3,314,111.80 | \$ 182,722.96 | \$ 1,386,675.48 | \$ 390,972.63 | \$ 1,265,458.10 | \$ 8,193,643.41 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

RECONCILIATION OF STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

| | | |
|---|-----------------------|-------------------------|
| Total Fund Balances for Governmental Funds | | \$ 8,193,643.41 |
| 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 are not reported in the governmental funds. | | |
| Cost of Capital Assets | 16,196,902.35 | |
| Less Accumulated Depreciation | <u>(4,635,071.43)</u> | |
| Net Capital Assets | | 11,561,830.92 |
| Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances at December 31, 2013 are: | | |
| Compensated Absences | (48,294.74) | |
| Bonds Payable | <u>(2,740,000.00)</u> | |
| Net Long-term Liabilities | | (2,788,294.74) |
| Discounts on bonds payable are treated as other financing uses in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds). | | 39,538.75 |
| Losses on bond refunding are included in other financing uses in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds). | | <u>43,769.38</u> |
| Total Net Position of Governmental Activities | | <u>\$ 17,050,487.72</u> |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

| | Major Funds | | | | | | Totals |
|---|------------------------|----------------------|------------------------|----------------------|------------------------|--------------------------|------------------------|
| | General | Fire Department | Paving Reserve | Streets | Sales Tax 40% | Other Governmental Funds | |
| Revenues: | | | | | | | |
| Taxes | \$ 327,326.03 | \$ - | \$ 768,614.34 | \$ - | \$ 219,339.43 | \$ 491,091.52 | \$ 1,806,371.32 |
| Licenses, Permits and Fees | 26,101.07 | - | 14,000.00 | - | - | - | 40,101.07 |
| Intergovernmental | 598,226.58 | 28,804.26 | - | 229,737.12 | - | 185,591.45 | 1,042,349.41 |
| Charges for Services | 25,049.13 | 17,015.56 | - | 49,969.70 | - | 18,996.00 | 111,020.39 |
| Fines and Forfeits | 7,602.43 | - | - | - | - | - | 7,602.43 |
| Interest Income | 36,612.17 | 2,036.84 | 14.12 | - | 17,128.11 | 4,000.00 | 59,791.24 |
| Grants | 3,350,606.00 | - | - | - | - | - | 3,350,606.00 |
| Miscellaneous | 11,158.79 | 48,253.94 | - | 490.45 | 1,608.00 | 3,693.05 | 65,204.23 |
| Total Revenues | 4,382,682.20 | 96,110.60 | 782,628.46 | 280,197.27 | 238,075.54 | 703,352.02 | 6,483,046.09 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General Government | 289,898.81 | - | - | 275,253.11 | - | 173,958.72 | 739,110.64 |
| Public Safety | 361,990.65 | 99,116.53 | - | - | - | - | 461,107.18 |
| Public Works | - | - | 13,156.42 | - | - | - | 13,156.42 |
| Culture and Recreation | 40,212.50 | - | - | - | - | 160,088.79 | 200,301.29 |
| Economic Development | - | - | - | - | 145,636.85 | 22,500.00 | 168,136.85 |
| Other | 95,657.78 | - | - | - | - | 2,086.31 | 97,744.09 |
| Debt Service: | | | | | | | |
| Principal | - | - | 175,000.00 | - | - | 130,000.00 | 305,000.00 |
| Interest and Service Charges | - | - | 50,466.00 | - | - | 29,189.75 | 79,655.75 |
| Capital Outlay | 1,533,123.95 | - | 21,336.96 | - | - | 67,286.07 | 1,621,671.98 |
| Total Expenditures | 2,320,888.69 | 99,116.53 | 259,959.38 | 275,253.11 | 145,636.85 | 585,029.64 | 3,885,884.20 |
| Excess of Revenues Over (Under) Expenditures | 2,061,793.51 | (3,005.93) | 522,669.08 | 4,944.16 | 92,438.69 | 118,322.38 | 2,797,161.89 |
| Other Financing Sources (Uses): | | | | | | | |
| Transfers In | 1,810,653.59 | - | - | 78.83 | - | 178,768.78 | 1,989,501.20 |
| Transfers Out | (2,668,703.75) | - | (17,619.55) | (10,454.12) | - | (287,078.83) | (2,963,856.25) |
| Total Other Financing Sources (Uses) | (858,050.16) | - | (17,619.55) | (10,375.29) | - | (88,310.05) | (974,355.05) |
| Net Change in Fund Balances | 1,203,743.35 | (3,005.93) | 505,049.53 | (5,431.13) | 92,438.69 | 30,012.33 | 1,822,806.84 |
| Fund Balance - January 1 | 2,110,368.45 | 185,728.89 | 881,625.95 | 396,403.76 | 1,173,019.41 | 1,623,690.11 | 6,370,836.57 |
| Fund Balance - December 31 | \$ 3,314,111.80 | \$ 182,722.96 | \$ 1,386,675.48 | \$ 390,972.63 | \$ 1,265,458.10 | \$ 1,653,702.44 | \$ 8,193,643.41 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2015

Net Change in Fund Balances-Total Governmental Funds \$ 1,822,806.84

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. This is the amount by which capital outlays exceeded depreciation in the current year.

| | | |
|-----------------------------------|---------------------|--------------|
| Current Year Capital Outlay | 1,703,171.98 | |
| Current Year Depreciation Expense | <u>(445,833.28)</u> | |
| Net Amount | | 1,257,338.70 |

The issuance of long-term debt provides a source of current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of discounts, losses and similar items when the debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.

| | | |
|--|-------------------|-------------|
| Amortization of Bond Discount | (4,542.50) | |
| Amortization of Deferred Loss on Refunding | <u>(6,733.75)</u> | |
| Net Amount | | (11,276.25) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

| | | |
|--------------------------------------|-----------------|-------------------|
| Principal Payments for Bonds Payable | 305,000.00 | |
| Net decrease in Compensated Absences | <u>1,196.42</u> | |
| Net Amount | | <u>306,196.42</u> |

Change in Net Position of Governmental Activities \$ 3,375,065.71

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2015

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|-----------------|---------------|-----------------|
| | Major Funds | | | |
| | Water | Sewer | Garbage | |
| | | | Total | |
| <u>ASSETS:</u> | | | | |
| <u>Current Assets:</u> | | | | |
| Cash and Investments | \$ 1,293,935.13 | \$ 166,096.54 | \$ 173,837.74 | \$ 1,633,869.41 |
| <u>Noncurrent Assets:</u> | | | | |
| Capital Assets (Net of Accumulated Depreciation) | 3,487,522.52 | 3,611,984.14 | 706,440.85 | 7,805,947.51 |
| Total Assets | 4,781,457.65 | 3,778,080.68 | 880,278.59 | 9,439,816.92 |
| <u>LIABILITIES:</u> | | | | |
| <u>Current Liabilities:</u> | | | | |
| Water Revenue Bonds Payable, Current Portion | 37,000.00 | - | - | 37,000.00 |
| <u>Noncurrent Liabilities:</u> | | | | |
| Water Revenue Bonds Payable, Net of Current Portion | 378,000.00 | - | - | 378,000.00 |
| Total Liabilities | 415,000.00 | - | - | 415,000.00 |
| <u>NET POSITION:</u> | | | | |
| Net Investment in Capital Assets Unrestricted | 3,072,522.52 | 3,611,984.14 | 706,440.85 | 7,390,947.51 |
| Total Net Position | \$ 4,366,457.65 | \$ 3,778,080.68 | \$ 880,278.59 | \$ 9,024,816.92 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|-----------------|---------------|-----------------|
| | Major Funds | | | Total |
| | Water | Sewer | Garbage | |
| <u>Operating Revenues:</u> | | | | |
| Charges for Services | \$ 525,440.33 | \$ 173,793.56 | \$ 392,814.81 | \$ 1,092,048.70 |
| <u>Operating Expenditures:</u> | | | | |
| System Repair and Maintenance | 31,769.66 | 18,016.11 | 51,992.76 | 101,778.53 |
| Chemicals | 54,920.25 | - | - | 54,920.25 |
| Salaries | 149,393.58 | 65,848.68 | 170,740.70 | 385,982.96 |
| Utilities | 18,188.78 | 7,762.74 | 1,517.82 | 27,469.34 |
| Work Force Safety and Insurance | 1,040.26 | 55.58 | 2,932.17 | 4,028.01 |
| Fuel | 4,637.63 | 1,764.16 | 29,970.67 | 36,372.46 |
| Garbage Operation | - | - | 71,910.72 | 71,910.72 |
| Depreciation | 103,208.12 | 67,220.80 | 53,857.88 | 224,286.80 |
| Total Operating Expenditures | 363,158.28 | 160,668.07 | 382,922.72 | 906,749.07 |
| Operating Income (Loss) | 162,282.05 | 13,125.49 | 9,892.09 | 185,299.63 |
| <u>Non-Operating Revenues</u> | | | | |
| <u>(Expenses):</u> | | | | |
| Grants | 200,000.00 | 200,000.00 | - | 400,000.00 |
| Interest Expense | (13,440.00) | - | - | (13,440.00) |
| Miscellaneous Income | 985.28 | - | - | 985.28 |
| Total Non-Operating Revenues (Expenses) | 187,545.28 | 200,000.00 | - | 387,545.28 |
| Income (Loss) Before Transfers | 349,827.33 | 213,125.49 | 9,892.09 | 572,844.91 |
| <u>Transfers:</u> | | | | |
| Transfers In | 549,227.08 | 362,317.96 | 140,000.00 | 1,051,545.04 |
| Transfers Out | (24,600.00) | (26,145.14) | (26,444.85) | (77,189.99) |
| Net Transfers In (Out) | 524,627.08 | 336,172.82 | 113,555.15 | 974,355.05 |
| Change in Net Position | 874,454.41 | 549,298.31 | 123,447.24 | 1,547,199.96 |
| Net Position - January 1 | 3,492,003.24 | 3,228,782.37 | 756,831.35 | 7,477,616.96 |
| Net Position - December 31 | \$ 4,366,457.65 | \$ 3,778,080.68 | \$ 880,278.59 | \$ 9,024,816.92 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|----------------------|----------------------|------------------------|
| | Major Funds | | | Total |
| | Water | Sewer | Garbage | |
| Cash Flows From Operating Activities: | | | | |
| Receipts from Customers | \$ 525,440.33 | \$ 173,793.56 | \$ 392,814.81 | \$ 1,092,048.70 |
| Payments to Suppliers | (109,516.32) | (27,543.01) | (155,391.97) | (292,451.30) |
| Payments to Employees | (150,433.84) | (65,904.26) | (173,672.87) | (390,010.97) |
| Net Cash Provided (Used) by Operating Activities | 265,490.17 | 80,346.29 | 63,749.97 | 409,586.43 |
| Cash Flows From Noncapital Financing Activities: | | | | |
| Miscellaneous Receipts | 3,828.72 | - | - | 3,828.72 |
| Miscellaneous Expense | (2,843.44) | - | - | (2,843.44) |
| Transfers In | 549,227.08 | 362,317.96 | 140,000.00 | 1,051,545.04 |
| Transfers Out | (24,600.00) | (26,145.14) | (26,444.85) | (77,189.99) |
| Net Cash Provided (Used) by Noncapital Financing Activities | 525,612.36 | 336,172.82 | 113,555.15 | 975,340.33 |
| Cash Flows From Capital and Related Financing Activities: | | | | |
| Purchase of Equipment | - | - | (220,299.96) | (220,299.96) |
| Purchase of Land | - | (100,000.00) | - | (100,000.00) |
| Payments for Infrastructure | (505,001.40) | (462,317.96) | - | (967,319.36) |
| Grant Receipts | 200,000.00 | 200,000.00 | - | 400,000.00 |
| Bond Principal Payments | (36,000.00) | - | - | (36,000.00) |
| Bond Interest Payments | (13,440.00) | - | - | (13,440.00) |
| Net Cash Provided (Used) From Capital and Related Financing Activities | (354,441.40) | (362,317.96) | (220,299.96) | (937,059.32) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 436,661.13 | 54,201.15 | (42,994.84) | 447,867.44 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 857,274.00 | 111,895.39 | 216,832.58 | 1,186,001.97 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 1,293,935.13 | \$ 166,096.54 | \$ 173,837.74 | \$ 1,633,869.41 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ 162,282.05 | \$ 13,125.49 | \$ 9,892.09 | \$ 185,299.63 |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 103,208.12 | 67,220.80 | 53,857.88 | 224,286.80 |
| | \$ 265,490.17 | \$ 80,346.29 | \$ 63,749.97 | \$ 409,586.43 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
December 31, 2014

| | Primary Government | | | Component Units | |
|---|----------------------------|--------------------------------|-------------------------|--------------------------------------|-----------------------------------|
| | Governmental Activities | Business Type Activities | Total | Bottineau Recreational Council | Bottineau Airport Authority |
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| Cash and Investments | \$ 5,553,649.75 | \$ 1,186,001.97 | \$ 6,739,651.72 | \$ 19,365.92 | \$ 94,965.49 |
| Loans Receivable, Current Portion | 103,140.85 | - | 103,140.85 | - | - |
| Total Current Assets | 5,656,790.60 | 1,186,001.97 | 6,842,792.57 | 19,365.92 | 94,965.49 |
| Noncurrent Assets: | | | | | |
| Restricted Cash | 207,000.00 | - | 207,000.00 | - | - |
| Loans Receivable, Net of Current Portion | 507,045.97 | - | 507,045.97 | - | - |
| Capital Assets, Net of Accumulated Depreciation | 10,304,492.22 | 6,742,614.99 | 17,047,107.21 | 132,756.43 | 3,375,340.83 |
| Total Noncurrent Assets | 11,018,538.19 | 6,742,614.99 | 17,761,153.18 | 132,756.43 | 3,375,340.83 |
| Total Assets | \$ 16,675,328.79 | \$ 7,928,616.96 | \$ 24,603,945.75 | \$ 152,122.35 | \$ 3,470,306.32 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | | |
| Unamortized Deferred Loss on Bond Refunding | \$ 50,503.13 | \$ - | \$ 50,503.13 | \$ - | \$ - |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| Current Portion of Bonds Payable | \$ 305,000.00 | \$ 36,000.00 | \$ 341,000.00 | \$ - | \$ - |
| Noncurrent Liabilities: | | | | | |
| Bonds Payable, Net of Current Portion | 2,740,000.00 | 415,000.00 | 3,155,000.00 | - | - |
| Discount on Bonds Payable | (44,081.25) | - | (44,081.25) | - | - |
| | 2,695,918.75 | 415,000.00 | 3,110,918.75 | - | - |
| Compensated Absences | 49,491.16 | - | 49,491.16 | - | - |
| Total Noncurrent Liabilities | 2,745,409.91 | 415,000.00 | 3,160,409.91 | - | - |
| Total Liabilities | \$ 3,050,409.91 | \$ 451,000.00 | \$ 3,501,409.91 | \$ - | \$ - |
| NET POSITION: | | | | | |
| Net Investment in Capital Assets | \$ 7,354,076.60 | \$ 6,291,614.99 | \$ 13,645,691.59 | \$ 132,756.43 | \$ 3,375,340.83 |
| Restricted for: | | | | | |
| Capital Projects | 316,326.11 | - | 316,326.11 | - | - |
| Debt Service | 207,000.00 | - | 207,000.00 | - | - |
| Special Purposes | 217,216.47 | - | 217,216.47 | - | - |
| Unrestricted | 5,580,802.83 | 1,186,001.97 | 6,766,804.80 | 19,365.92 | 94,965.49 |
| Total Net Position | \$ 13,675,422.01 | \$ 7,477,616.96 | \$ 21,153,038.97 | \$ 152,122.35 | \$ 3,470,306.32 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
For the Year Ended December 31, 2014

| FUNCTIONS/PROGRAMS | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | | Component Units | |
|---|------------------------|------------------------|----------------------------------|---|-------------------------|--------------------------|-----------------------|------------------------|
| | Expenses | Charges for Services | Capital Grants and Contributions | Operating Grants and Contributions | Governmental Activities | Business Type Activities | Recreational Council | Airport Authority |
| PRIMARY GOVERNMENT | | | | | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | | |
| General Government | \$ 709,207.39 | \$ 75,103.06 | \$ - | \$ - | \$ (634,104.33) | \$ - | \$ (634,104.33) | |
| Public Safety | 412,093.17 | 27,876.80 | - | - | (384,216.37) | - | (384,216.37) | |
| Public Works | 435,873.91 | 56,823.50 | 160,000.00 | - | (218,550.41) | - | (218,550.41) | |
| Culture and Recreation | 254,978.62 | - | - | - | (254,978.62) | - | (254,978.62) | |
| Economic Development | 97,000.00 | - | - | - | (97,000.00) | - | (97,000.00) | |
| Other | 71,135.39 | - | - | - | (71,135.39) | - | (71,135.39) | |
| Interest and Service Charges | 94,665.50 | - | - | - | (94,665.50) | - | (94,665.50) | |
| Total Governmental Activities | 2,074,453.98 | 159,803.36 | 160,000.00 | - | (1,754,650.62) | - | (1,754,650.62) | |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | | |
| Water | 392,345.01 | 368,776.55 | - | - | (23,568.46) | (23,568.46) | (23,568.46) | |
| Sewer | 143,012.89 | 172,466.74 | - | - | 29,453.85 | 29,453.85 | 29,453.85 | |
| Garbage | 393,095.98 | 377,438.64 | - | - | (15,657.34) | (15,657.34) | (15,657.34) | |
| Total Business-Type Activities | 928,453.88 | 918,681.93 | - | - | (9,771.95) | (9,771.95) | (9,771.95) | |
| Total Primary Government | \$ 3,002,907.86 | \$ 1,078,485.29 | \$ 160,000.00 | \$ - | (1,754,650.62) | (9,771.95) | (1,764,422.57) | |
| COMPONENT UNITS: | | | | | | | | |
| Recreational Council | \$ 96,553.10 | \$ 8,093.42 | \$ 121,000.00 | \$ 64,000.00 | | | \$ 96,540.32 | \$ - |
| Airport Authority | 239,218.54 | 42,657.91 | 88,525.68 | - | | | - | (108,034.95) |
| Total Component Units | \$ 335,771.64 | \$ 50,751.33 | \$ 209,525.68 | \$ 64,000.00 | | | 96,540.32 | (108,034.95) |
| General Revenues and Transfers: | | | | | | | | |
| Property Taxes | | | | 566,263.88 | | | | 48,608.77 |
| Unrestricted Grants and Contributions | | | | 1,329,524.12 | | | | - |
| City Sales Tax | | | | 1,224,845.96 | | | | - |
| Earnings on Investments | | | | 42,686.61 | | | | 105.43 |
| Miscellaneous Revenues | | | | 78,817.24 | | | | - |
| Transfers | | | | (511,269.37) | | 511,269.37 | | - |
| Total General Revenues and Transfers | | | | 2,750,668.44 | | 511,269.37 | | 48,714.20 |
| Change in Net Position | | | | 996,217.82 | | 501,497.42 | | 96,540.32 |
| Net Position - January 1 | | | | 12,679,204.19 | | 6,976,119.54 | | 55,682.03 |
| Net Position - December 31 | | | | \$ 13,675,422.01 | | \$ 7,477,616.96 | | \$ 152,122.35 |
| | | | | | | | | \$ 3,470,306.32 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014

| | Major Funds | | | | | Totals |
|---------------------------------------|-----------------|-----------------|----------------|---------------|-----------------|-----------------|
| | General | Fire Department | Paving Reserve | Streets | Sales Tax 40% | |
| ASSETS: | | | | | | |
| Cash and Investments | \$ 2,110,368.45 | \$ 185,728.89 | \$ 881,625.95 | \$ 396,403.76 | \$ 562,832.59 | \$ 5,760,649.75 |
| Loans Receivable | - | - | - | - | 610,186.82 | 610,186.82 |
| Total Assets | \$ 2,110,368.45 | \$ 185,728.89 | \$ 881,625.95 | \$ 396,403.76 | \$ 1,173,019.41 | \$ 6,370,836.57 |
| LIABILITIES AND FUND BALANCES: | | | | | | |
| Liabilities: | | | | | | |
| Fund Balances: | | | | | | |
| Nonspendable Fund Balance | - | - | - | - | 610,186.82 | 610,186.82 |
| Restricted Fund Balance | - | - | - | - | 740,542.58 | 740,542.58 |
| Committed Fund Balance | 883,659.33 | 185,728.89 | 881,625.95 | 396,403.76 | 562,832.59 | 3,793,398.05 |
| Unassigned Fund Balance | 1,226,709.12 | - | - | - | - | 1,226,709.12 |
| Total Fund Balances | 2,110,368.45 | 185,728.89 | 881,625.95 | 396,403.76 | 1,173,019.41 | 6,370,836.57 |
| Total Liabilities and Fund Balances | \$ 2,110,368.45 | \$ 185,728.89 | \$ 881,625.95 | \$ 396,403.76 | \$ 1,173,019.41 | \$ 6,370,836.57 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

RECONCILIATION OF STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2014

Total Fund Balances for Governmental Funds \$ 6,370,836.57

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 are not reported in the governmental funds.

| | | |
|-------------------------------|-----------------------|---------------|
| Cost of Capital Assets | 14,493,730.37 | |
| Less Accumulated Depreciation | <u>(4,189,238.15)</u> | |
| Net Capital Assets | | 10,304,492.22 |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position. Balances at December 31, 2013 are:

| | | |
|---------------------------|-----------------------|----------------|
| Compensated Absences | (49,491.16) | |
| Bonds Payable | <u>(3,045,000.00)</u> | |
| Net Long-term Liabilities | | (3,094,491.16) |

Discounts on bonds payable are treated as other financing uses in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds).

44,081.25

Losses on bond refunding are included in other financing uses in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds).

50,503.13

Total Net Position of Governmental Activities

\$ 13,675,422.01

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

| | General | Fire Department | Paving Reserve | Streets | Sales Tax 40% | Other Governmental Funds | Totals |
|---|------------------------|----------------------|----------------------|----------------------|------------------------|--------------------------|------------------------|
| Revenues: | | | | | | | |
| Taxes | \$ 303,160.67 | \$ - | \$ 787,341.12 | \$ - | \$ 224,791.27 | \$ 495,816.78 | \$ 1,811,109.84 |
| Licenses, Permits and Fees | 30,424.90 | - | 9,401.60 | - | - | - | 39,826.50 |
| Intergovernmental | 882,454.31 | 23,476.56 | - | 244,466.73 | - | 179,126.52 | 1,329,524.12 |
| Charges for Services | 23,516.96 | 25,234.33 | - | 51,586.10 | - | 16,997.00 | 117,334.39 |
| Fines and Forfeits | 2,642.47 | - | - | - | - | - | 2,642.47 |
| Interest Income | 27,335.58 | 1,127.87 | 14.05 | - | 14,209.11 | - | 42,686.61 |
| Grants | 160,000.00 | - | - | - | - | - | 160,000.00 |
| Miscellaneous | 14,632.68 | 51,845.23 | - | - | - | 12,339.33 | 78,817.24 |
| Total Revenues | 1,444,157.57 | 101,633.99 | 796,756.77 | 296,052.83 | 239,000.38 | 704,279.63 | 3,581,941.17 |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General Government | 248,463.50 | - | - | 286,720.44 | - | 179,969.77 | 715,153.71 |
| Public Safety | 324,644.19 | 87,448.98 | - | - | - | - | 412,093.17 |
| Public Works | - | - | 12,687.80 | - | - | - | 12,687.80 |
| Culture and Recreation | 100,000.00 | - | - | - | - | 154,978.62 | 254,978.62 |
| Economic Development | - | - | - | - | 84,500.00 | 12,500.00 | 97,000.00 |
| Other | 59,544.56 | - | - | - | 4,292.06 | 7,298.77 | 71,135.39 |
| Debt Service: | | | | | | | |
| Principal | - | - | 170,000.00 | - | - | 130,000.00 | 300,000.00 |
| Interest and Service Charges | - | - | 52,659.00 | - | - | 30,730.25 | 83,389.25 |
| Capital Outlay | 43,153.56 | - | 27,620.01 | - | - | 15,379.00 | 86,152.57 |
| Total Expenditures | 775,810.81 | 87,448.98 | 262,965.81 | 286,720.44 | 88,792.06 | 530,856.41 | 2,032,595.51 |
| Excess of Revenues Over (Under) Expenditures | 668,346.76 | 14,235.01 | 533,789.96 | 9,332.39 | 150,208.32 | 173,423.22 | 1,549,345.66 |
| Other Financing Sources (Uses): | | | | | | | |
| Transfers In | 700,022.01 | - | 28,572.84 | - | - | 24,607.41 | 753,202.26 |
| Transfers Out | (1,138,501.61) | - | - | (10,896.89) | - | (115,073.13) | (1,264,471.63) |
| Total Other Financing Sources (Uses) | (438,479.60) | - | 28,572.84 | (10,896.89) | - | (90,465.72) | (511,269.37) |
| Net Change in Fund Balances | 229,877.16 | 14,235.01 | 562,362.80 | (1,564.50) | 150,208.32 | 82,957.50 | 1,038,076.29 |
| Fund Balance - January 1 | 1,880,491.29 | 171,493.88 | 319,263.15 | 397,968.26 | 1,022,811.09 | 1,540,732.61 | 5,332,760.28 |
| Fund Balance - December 31 | \$ 2,110,368.45 | \$ 185,728.89 | \$ 881,625.95 | \$ 396,403.76 | \$ 1,173,019.41 | \$ 1,623,690.11 | \$ 6,370,836.57 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

Net Change in Fund Balances--Total Governmental Funds \$ 1,038,076.29

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. This is the amount by which capital outlays exceeded depreciation in the current year.

| | | |
|-----------------------------------|---------------------|--------------|
| Current Year Capital Outlay | 86,157.57 | |
| Current Year Depreciation Expense | <u>(422,686.11)</u> | |
| Net Amount | | (336,528.54) |

The issuance of long-term debt provides a source of current financial resources to governmental funds. However, issuing debt increases long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of discounts, losses and similar items when the debt is first issued, but these amounts are deferred and amortized in the Statement of Activities.

| | | |
|--|-------------------|-------------|
| Amortization of Bond Discount | (4,542.50) | |
| Amortization of Deferred Loss on Refunding | <u>(6,733.75)</u> | |
| Net Amount | | (11,276.25) |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

| | | |
|--------------------------------------|-----------------|-------------------|
| Principal Payments for Bonds Payable | 300,000.00 | |
| Net decrease in Compensated Absences | <u>5,946.32</u> | |
| Net Amount | | <u>305,946.32</u> |

Change in Net Position of Governmental Activities \$ 996,217.82

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2014

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|-----------------|---------------|-----------------|
| | Major Funds | | | |
| | Water | Sewer | Garbage | |
| | | | Total | |
| <u>ASSETS:</u> | | | | |
| <u>Current Assets:</u> | | | | |
| Cash and Investments | \$ 857,274.00 | \$ 111,895.39 | \$ 216,832.58 | \$ 1,186,001.97 |
| <u>Noncurrent Assets:</u> | | | | |
| Capital Assets (Net of Accumulated Depreciation) | 3,085,729.24 | 3,116,886.98 | 539,998.77 | 6,742,614.99 |
| Total Assets | 3,943,003.24 | 3,228,782.37 | 756,831.35 | 7,928,616.96 |
| <u>LIABILITIES:</u> | | | | |
| <u>Current Liabilities:</u> | | | | |
| Water Revenue Bonds Payable, Current Portion | 36,000.00 | - | - | 36,000.00 |
| <u>Noncurrent Liabilities:</u> | | | | |
| Water Revenue Bonds Payable, Net of Current Portion | 415,000.00 | - | - | 415,000.00 |
| Total Liabilities | 451,000.00 | - | - | 451,000.00 |
| <u>NET POSITION:</u> | | | | |
| Net Investment in Capital Assets Unrestricted | 2,634,729.24 | 3,116,886.98 | 539,998.77 | 6,291,614.99 |
| Total Net Position | \$ 3,492,003.24 | \$ 3,228,782.37 | \$ 756,831.35 | \$ 7,477,616.96 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

| | Business-Type Activities-Enterprise Funds | | | |
|---|---|-----------------|---------------|-----------------|
| | Major Funds | | | Total |
| | Water | Sewer | Garbage | |
| <u>Operating Revenues:</u> | | | | |
| Charges for Services | \$ 368,776.55 | \$ 172,466.74 | \$ 377,438.64 | \$ 918,681.93 |
| <u>Operating Expenditures:</u> | | | | |
| System Repair and Maintenance | 35,966.55 | 11,782.32 | 61,182.09 | 108,930.96 |
| Chemicals | 51,337.15 | - | - | 51,337.15 |
| Salaries | 154,440.42 | 65,198.77 | 157,777.17 | 377,416.36 |
| Utilities | 18,262.74 | 7,395.13 | 3,665.18 | 29,323.05 |
| Work Force Safety and Insurance | 2,778.73 | 104.19 | 6,073.59 | 8,956.51 |
| Fuel | 6,432.99 | 2,432.83 | 41,131.81 | 49,997.63 |
| Garbage Operation | - | - | 70,283.04 | 70,283.04 |
| Depreciation | 99,837.59 | 54,943.32 | 44,658.96 | 199,439.87 |
| Total Operating Expenditures | 369,056.17 | 141,856.56 | 384,771.84 | 895,684.57 |
| Operating Income (Loss) | (279.62) | 30,610.18 | (7,333.20) | 22,997.36 |
| <u>Non-Operating Revenues (Expenses):</u> | | | | |
| Interest Expense | (14,492.50) | - | - | (14,492.50) |
| Miscellaneous Expense | (8,796.34) | (1,156.33) | (8,324.14) | (18,276.81) |
| Total Non-Operating Revenues (Expenses) | (23,288.84) | (1,156.33) | (8,324.14) | (32,769.31) |
| Income (Loss) Before Transfers | (23,568.46) | 29,453.85 | (15,657.34) | (9,771.95) |
| <u>Transfers:</u> | | | | |
| Transfers In | 289,113.61 | 175,377.16 | 121,712.50 | 586,203.27 |
| Transfers Out | (24,600.00) | (25,979.81) | (24,354.09) | (74,933.90) |
| Net Transfers In (Out) | 264,513.61 | 149,397.35 | 97,358.41 | 511,269.37 |
| Change in Net Position | 240,945.15 | 178,851.20 | 81,701.07 | 501,497.42 |
| Net Position - January 1 | 3,251,058.09 | 3,049,931.17 | 675,130.28 | 6,976,119.54 |
| Net Position - December 31 | \$ 3,492,003.24 | \$ 3,228,782.37 | \$ 756,831.35 | \$ 7,477,616.96 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

| | Business-Type Activities-Enterprise Funds | | | |
|--|---|---------------|---------------|-----------------|
| | Major Funds | | | Total |
| | Water | Sewer | Garbage | |
| Cash Flows From Operating Activities: | | | | |
| Receipts from Customers | \$ 368,776.55 | \$ 172,466.74 | \$ 377,438.64 | \$ 918,681.93 |
| Payments to Suppliers | (111,999.43) | (21,610.28) | (176,262.12) | (309,871.83) |
| Payments to Employees | (157,219.15) | (65,302.96) | (163,850.76) | (386,372.87) |
| Net Cash Provided (Used) by Operating Activities | 99,557.97 | 85,553.50 | 37,325.76 | 222,437.23 |
| Cash Flows From Noncapital Financing Activities: | | | | |
| Miscellaneous Expense | (8,796.34) | (1,156.33) | (8,324.14) | (18,276.81) |
| Transfers In | 289,113.61 | 175,377.16 | 121,712.50 | 586,203.27 |
| Transfers Out | (24,600.00) | (25,979.81) | (24,354.09) | (74,933.90) |
| Net Cash Provided (Used) by Noncapital Financing Activities | 255,717.27 | 148,241.02 | 89,034.27 | 492,992.56 |
| Cash Flows From Capital and Related Financing Activities: | | | | |
| Purchase of Buildings | - | (165,760.00) | (6,543.00) | (172,303.00) |
| Purchase of Equipment | - | (10,658.41) | (319,104.43) | (329,762.84) |
| Payments for Infrastructure | (242,793.82) | (174,377.16) | - | (417,170.98) |
| Bond Principal Payments | (35,000.00) | - | - | (35,000.00) |
| Bond Interest Payments | (14,492.50) | - | - | (14,492.50) |
| Net Cash Provided (Used) From Capital and Related Financing Activities | (292,286.32) | (350,795.57) | (325,647.43) | (968,729.32) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 62,988.92 | (117,001.05) | (199,287.40) | (253,299.53) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 794,285.08 | 228,896.44 | 416,119.98 | 1,439,301.50 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 857,274.00 | \$ 111,895.39 | \$ 216,832.58 | \$ 1,186,001.97 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ (279.62) | \$ 30,610.18 | \$ (7,333.20) | \$ 22,997.36 |
| Adjustment to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | 99,837.59 | 54,943.32 | 44,658.96 | 199,439.87 |
| | \$ 99,557.97 | \$ 85,553.50 | \$ 37,325.76 | \$ 222,437.23 |

The accompanying notes are an integral part of these financial statements.

CITY OF BOTTINEAU
Bottineau, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Bottineau, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Bottineau. 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 are such that exclusion would cause the city's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the City of Bottineau 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 of Bottineau.

Based on these criteria, the component units discussed below are included within the city's reporting entity because of the significance of their operational or financial relationships with the city.

COMPONENT UNIT

In conformity with accounting principles generally accepted in the United States of America, the financial statements of component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Unit - The component units' columns in the government wide financial statements include the financial data of the city's component units. These component units are reported in separate columns to emphasize that they are legally separate from the city.

Component Unit Financial Statements - The financial statements of the discretely presented component units are presented in the financial statements. Complete financial statements of the component units can be obtained directly from the administration office of the city.

The city's component units are as follows:

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

Bottineau Recreational Council - The Bottineau Recreational Council is primarily responsible for services provided by the outdoor swimming pool located in Bottineau, North Dakota. The Bottineau Recreational Council's governing board is appointed by the city's governing body. The city's governing board has the authority to approve, disapprove or amend the recreational council's budget.

B. Financial Statement Presentation

The city's accounting policy is to maintain the accounting records and present its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, City of Bottineau. 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the city's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed in net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for different business-type activities and 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, fines 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, are presented as general revenues.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund provides a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories as prescribed by GASB Statement No. 34 and amended by GASB Statement No. 65. Nonmajor governmental funds are combined and reported in aggregate.

The major funds of the city's financial reporting entity are described below within their respective fund types. The city currently has no fiduciary funds.

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.

Fire Department Fund. This special revenue fund accounts for the activities for the operation of the city's fire department. The major sources of its revenue are related to fundraising activities, grants and donations.

Paving Reserve Fund. This special revenue fund accounts for the excess funds accumulated by the city for future street paving projects, as well as effects of the advanced refunding of Sales Tax Revenue Bonds of 2007 and the related payments of principal, interest and fees for the Sales Tax Revenue Refunding Bonds, Series 2014. This fund's primary revenue source is restricted city sales tax.

Streets Fund. This special revenue fund accounts for revenues and expenditures related to streets, including payroll-related costs. This fund's primary revenue source is from the state highway tax.

Sales Tax 40% Fund. This special revenue fund accounts for the city sales tax funds that are used for economic development projects within the city. This fund's primary revenue sources are restricted city sales tax and local grants.

Proprietary Funds:

The city's proprietary funds consist of three enterprise funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The city's three enterprise funds are as follows:

Water Fund. This fund accounts for the activity of the water department. The department operates the water distribution system of City of Bottineau.

Sewer Fund. This fund accounts for the activities of the sewer department. This department operates the sewage treatment plant, sewage pumping stations and collection systems in the City of Bottineau.

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

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe **how** transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

Economic resources measurement focus: The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to **when** the transactions are recorded, regardless of the measurement focus applied. The only basis of accounting used by the City of Bottineau is the modified cash basis of accounting as discussed below.

Government-wide Financial Statements

Both governmental and enterprise funds are reported using the economic resources measurement focus and the modified cash basis of accounting in the government-wide financial statements. The modified cash basis of accounting recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions, with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

If the city utilized the basis of accounting recognized as generally accepted, all government-wide financial statements would be presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized and expenditures are recorded as described above with respect to the modified cash basis of accounting. If the city utilized the basis of accounting recognized as generally accepted, fund financial statements for governmental funds would use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when measurable and available (i.e., when they are collectable within the current year or soon enough thereafter to pay liabilities of the current year).

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting, as described above. If the city utilized the basis of accounting recognized as generally accepted, fund financial statements for proprietary fund types would use the accrual basis of accounting. As such, their revenues would be recognized when they are earned, and their expenses would be recognized when they are incurred.

The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets

The governing board adopts an annual budget on a basis consistent with GAAP for the general fund, as well as each special revenue, capital projects, and 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:

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the Statement of Cash Flows consist of highly liquid investments with an original maturity of three months or less. Deposits must be either deposited in the Bank of North Dakota or in another financial institution situated and doing business within this state. Deposits, other than those with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the city to invest in:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- (4) Obligations of the state.

At December 31, 2015 and 2014, the City of Bottineau's cash included demand deposit accounts and certificates of deposits which are stated at cost.

G. Financing Receivables and Allowance for Doubtful Accounts

Loans receivable are considered past due when payments are late according to the loan agreement. However, loans receivable are not typically placed on nonaccrual status. If legal notification has been received by the city stating that no further loan payments will be made (typically due to the borrower filing bankruptcy), the city writes off the loan directly to expense.

An allowance for doubtful accounts has not been provided, as historically losses related to bad debt have not been significant and it is management's opinion that losses, if any, will continue to be immaterial to the financial statements. As stated above, receivables are written off directly to expense when they are determined to be uncollectable.

H. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or 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 the assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| | |
|----------------|---------------|
| Buildings | 50 years |
| Infrastructure | 50 years |
| Equipment | 7 years |
| Vehicles | 7 to 10 years |

I. Compensated Absences

Each continuous full-time employee is granted vacation benefits based on years of service. Upon termination, employees are not paid for any sick leave accumulated, but are paid for all vacation earned up to the date of separation. Vested or accumulated leave for governmental funds is reported in the government-wide statements. Vested or accumulated leave for proprietary fund operations are accounted for in those funds.

J. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums, discounts and deferred losses on refundings are capitalized and amortized to interest expense over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. 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. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

L. Fund Equity

In the governmental fund financial statements, governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassignable.

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principle of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, and other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by a formal action of the city's highest level of decision-making authority, the city council. Committed resources cannot be used for any other purpose unless the city council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance - represents amounts the city intends to use for specific purposes as expressed by the city council or an official delegated the authority to assign amounts. As of December 31, 2015, the city council has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the city's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The city has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 2: EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

Expenditures exceeded budget in certain funds during 2015 and 2014 as detailed in the following tables. No remedial action is anticipated or required by the city regarding these excess expenditures.

| | 2015 EXPENDITURES | | |
|------------------------------|-------------------|---------------------|-------------------|
| | Final Budget | Actual Expenditures | Excess |
| <u>General Fund</u> | \$ 796,736.00 | \$ 2,320,888.69 | \$ (1,524,152.69) |
| | 2014 EXPENDITURES | | |
| | Final Budget | Actual Expenditures | Excess |
| <u>Special Revenue Funds</u> | | | |
| Streets | \$ 284,700.00 | \$ 286,720.44 | \$ (2,020.44) |
| Paving Reserve | \$ 245,000.00 | \$ 262,966.81 | \$ (17,966.81) |

NOTE 3: DEPOSITS

At December 31, 2015 and 2014, restricted cash includes amounts required to be held in a reserve fund under the Sales Tax Revenue Refunding Bonds of 2011 and the Sales Tax Revenue Refunding Bonds of 2012. Since the cash is not available for current use, it is classified as a noncurrent asset in the Statement of Net Position.

At December 31, 2015 and 2014, the deposits of the city were entirely covered by federal depository insurance or by collateral held by the city's custodial banks in the city's name. As of December 31, 2015 and 2014, the city held certificates of deposit in the amount of \$4,867,351.43 and \$2,865,318.73 which are all considered deposits. The Bottineau Airport Authority held certificates of deposit in the amount of \$5,622.90 and \$5,610.38, respectively.

Custodial and Concentration of credit risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the city will not be able to recover collateral securities that are in the possession of an outside party. As discussed in Note 1-F, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. As discussed above, the city's deposits were adequately protected by insurance or collateral during the current fiscal year. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the city.

Interest rate risk:

Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the city invests its operating funds primarily in short term certificates of deposit and limits the average maturity in accordance with the city's cash requirements.

NOTE 4: LOANS RECEIVABLE

Loans receivable represent amounts lent to local businesses through the Gateway Fund program. The Gateway Fund is intended to provide financing incentives to businesses that desire to expand or locate in the greater Bottineau trade area. This fund is included in the Sales Tax 40% Fund. Gateway funds are used to expand the financial base of the community and to develop private enterprise. Interest is recognized monthly using the effective interest method. As of December 31, 2015 and 2014, no significant loans receivable were considered past due according to the city's policy.

NOTE 5: CAPITAL ASSETS

The following is a summary of changes in capital assets for the years ended December 31, 2015 and 2014:

| | Balance 01/01/2015 | Additions | Deletions | Balance 12/31/2015 |
|--|-----------------------|---------------|-----------|-----------------------|
| Governmental Activities: | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 55,250.00 | \$ 659,891.54 | \$ - | \$ 715,141.54 |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 1,254,310.35 | \$ 205,130.25 | \$ - | \$ 1,459,440.60 |
| Buildings | 978,413.67 | 81,500.00 | - | 1,059,913.67 |
| Infrastructure | 12,205,756.35 | 756,650.19 | - | 12,962,406.54 |
| Total Capital Assets Being Depreciated | 14,438,480.37 | 1,043,280.44 | - | 15,481,760.81 |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 530,365.98 | 74,094.86 | - | 604,460.84 |
| Buildings | 654,145.93 | 15,383.27 | - | 669,529.20 |
| Infrastructure | 3,004,726.24 | 356,355.15 | - | 3,361,081.39 |
| Total Accumulated Depreciation | 4,189,238.15 | 445,833.28 | - | 4,635,071.43 |
| Total Capital Assets Being Depreciated, Net | \$ 10,249,242.22 | \$ 597,447.16 | \$ - | \$ 10,846,689.38 |
| | | | | |
| | Balance 01/01/2015 | Additions | Deletions | Balance 12/31/2015 |
| Business-Type Activities: | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 101,750.00 | \$ 100,000.00 | \$ - | \$ 201,750.00 |
| Infrastructure WIP | - | 462,317.96 | - | 462,317.96 |
| Total Capital Assets Not Being Depreciated | \$ 101,750.00 | \$ 562,317.96 | \$ - | \$ 664,067.96 |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 802,854.40 | \$ 220,299.96 | \$ - | \$ 1,023,154.36 |
| Buildings | 1,805,300.58 | - | - | 1,805,300.58 |
| Infrastructure | 8,221,683.53 | 505,001.40 | - | 8,726,684.93 |
| Total Capital Assets Being Depreciated | 10,829,838.51 | 725,301.36 | - | 11,555,139.87 |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 355,405.66 | 59,035.02 | - | 414,440.68 |
| Buildings | 341,708.98 | 35,492.20 | - | 377,201.18 |
| Infrastructure | 3,491,858.88 | 129,759.58 | - | 3,621,618.46 |
| Total Accumulated Depreciation | 4,188,973.52 | 224,286.80 | - | 4,413,260.32 |
| Total Capital Assets Being Depreciated, Net | \$ 6,640,864.99 | \$ 501,014.56 | \$ - | \$ 7,141,879.55 |

| | Balance 01/01/2015 | Additions | Deletions | Balance 12/31/2015 |
|---|-----------------------|-----------------|-----------|-----------------------|
| Component Units: | | | | |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 254,570.63 | \$ - | \$ - | \$ 254,570.63 |
| Buildings | 469,608.69 | - | - | 469,608.69 |
| Infrastructure | 3,453,085.02 | - | - | 3,453,085.02 |
| Total Capital Assets Being Depreciated | 4,177,264.34 | - | - | 4,177,264.34 |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 110,118.57 | 17,810.00 | - | 127,928.57 |
| Buildings | 86,786.67 | 16,584.35 | - | 103,371.02 |
| Infrastructure | 472,261.84 | 69,061.70 | - | 541,323.54 |
| Total Accumulated Depreciation | 669,167.08 | 103,456.05 | - | 772,623.13 |
| Total Capital Assets Being Depreciated, Net | \$ 3,508,097.26 | \$ (103,456.05) | \$ - | \$ 3,404,641.21 |

| | Balance 01/01/2014 | Additions | Deletions | Balance 12/31/2014 |
|--|-----------------------|-----------------|-----------|-----------------------|
| Governmental Activities: | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 55,250.00 | \$ - | \$ - | \$ 55,250.00 |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 1,232,210.35 | \$ 22,100.00 | \$ - | \$ 1,254,310.35 |
| Buildings | 978,413.67 | - | - | 978,413.67 |
| Infrastructure | 12,141,698.78 | 64,057.57 | - | 12,205,756.35 |
| Total Capital Assets Being Depreciated | 14,352,322.80 | 86,157.57 | - | 14,438,480.37 |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 469,650.32 | 60,715.66 | - | 530,365.98 |
| Buildings | 639,577.66 | 14,568.27 | - | 654,145.93 |
| Infrastructure | 2,657,324.06 | 347,402.18 | - | 3,004,726.24 |
| Total Accumulated Depreciation | 3,766,552.04 | 422,686.11 | - | 4,189,238.15 |
| Total Capital Assets Being Depreciated, Net | \$ 10,585,770.76 | \$ (336,528.54) | \$ - | \$ 10,249,242.22 |

| | Balance 01/01/2014 | Additions | Deletions | Balance 12/31/2014 |
|--|------------------------|------------------------|------------------------|------------------------|
| Business-Type Activities: | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 101,750.00 | \$ - | \$ - | \$ 101,750.00 |
| Infrastructure WIP | 579,512.55 | - | (579,512.55) | - |
| Total Capital Assets Not Being Depreciated | <u>\$ 681,262.55</u> | <u>\$ -</u> | <u>\$ (579,512.55)</u> | <u>\$ 101,750.00</u> |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 473,091.56 | \$ 329,762.84 | \$ - | \$ 802,854.40 |
| Buildings | 1,632,997.58 | 172,303.00 | - | 1,805,300.58 |
| Infrastructure | 7,225,000.00 | 996,683.53 | - | 8,221,683.53 |
| Total Capital Assets Being Depreciated | <u>9,331,089.14</u> | <u>1,498,749.37</u> | <u>-</u> | <u>10,829,838.51</u> |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 306,015.24 | 49,390.42 | - | 355,405.66 |
| Buildings | 312,135.72 | 29,573.26 | - | 341,708.98 |
| Infrastructure | 3,371,382.69 | 120,476.19 | - | 3,491,858.88 |
| Total Accumulated Depreciation | <u>3,989,533.65</u> | <u>199,439.87</u> | <u>-</u> | <u>4,188,973.52</u> |
| Total Capital Assets Being Depreciated, Net | <u>\$ 5,341,555.49</u> | <u>\$ 1,299,309.50</u> | <u>\$ -</u> | <u>\$ 6,640,864.99</u> |

| | Balance 01/01/2014 | Additions | Deletions | Balance 12/31/2014 |
|---|------------------------|----------------------|-------------|------------------------|
| Component Units: | | | | |
| <i>Capital Assets Being Depreciated:</i> | | | | |
| Machinery and Equipment | \$ 163,513.97 | \$ 91,056.66 | \$ - | \$ 254,570.63 |
| Buildings | 469,608.69 | - | - | 469,608.69 |
| Infrastructure | 3,453,085.02 | - | - | 3,453,085.02 |
| Total Capital Assets Being Depreciated | <u>4,086,207.68</u> | <u>91,056.66</u> | <u>-</u> | <u>4,177,264.34</u> |
| <i>Less Accumulated Depreciation for:</i> | | | | |
| Machinery and Equipment | 98,995.01 | 11,123.56 | - | 110,118.57 |
| Buildings | 70,202.32 | 16,584.35 | - | 86,786.67 |
| Infrastructure | 403,200.14 | 69,061.70 | - | 472,261.84 |
| Total Accumulated Depreciation | <u>572,397.47</u> | <u>96,769.61</u> | <u>-</u> | <u>669,167.08</u> |
| Total Capital Assets Being Depreciated, Net | <u>\$ 3,513,810.21</u> | <u>\$ (5,712.95)</u> | <u>\$ -</u> | <u>\$ 3,508,097.26</u> |

Depreciation expense was charged to public works under governmental activities in the Statement of Activities during the years ended December 31, 2015 and 2014.

NOTE 6: LONG-TERM LIABILITIES

During the years ended December 31, 2015 and 2014, the following changes occurred in the long-term liabilities of the city:

| | Balance 1/1/2015 | Additions | Deletions | Balance 12/31/2015 | Due Within One Year |
|----------------------------------|------------------------|-------------|----------------------|------------------------|------------------------|
| Governmental Activities: | | | | | |
| Special Assessment | | | | | |
| Bonds | \$ 1,165,000.00 | \$ - | \$ 130,000.00 | \$ 1,035,000.00 | \$ 125,000.00 |
| Revenue Bonds | 1,880,000.00 | - | 175,000.00 | 1,705,000.00 | 170,000.00 |
| Compensated Absences | 49,491.16 | - | 1,196.42 | 48,294.74 | - |
| Total | \$ 3,094,491.16 | \$ - | \$ 306,196.42 | \$ 2,788,294.74 | \$ 295,000.00 |
| Business-Type Activities: | | | | | |
| Revenue Bonds | \$ 451,000.00 | \$ - | \$ 36,000.00 | \$ 415,000.00 | \$ 37,000.00 |

| | Balance 1/1/2014 | Additions | Deletions | Balance 12/31/2014 | Due Within One Year |
|----------------------------------|------------------------|-------------|----------------------|------------------------|------------------------|
| Governmental Activities: | | | | | |
| Special Assessment | | | | | |
| Bonds | \$ 1,295,000.00 | \$ - | \$ 130,000.00 | \$ 1,165,000.00 | \$ 130,000.00 |
| Revenue Bonds | 2,050,000.00 | - | 170,000.00 | 1,880,000.00 | 175,000.00 |
| Compensated Absences | 55,437.48 | - | 5,946.32 | 49,491.16 | - |
| Total | \$ 3,400,437.48 | \$ - | \$ 305,946.32 | \$ 3,094,491.16 | \$ 305,000.00 |
| Business-Type Activities: | | | | | |
| Revenue Bonds | \$ 486,000.00 | \$ - | \$ 35,000.00 | \$ 451,000.00 | \$ 36,000.00 |

Compensated Absences:

The change in compensated absences is shown as a net change, as changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Bonds Payable:

Sales Tax Revenue Refunding Bonds, Series 2012 - Advance Refunding

The city authorized the issuance of the Sales Tax Revenue Refunding Bonds, Series 2012 (2012 Bonds) with a par value of \$945,000.00 at a discount of \$14,175.00. The purpose of the Refunding Bonds is to pay the remaining balance on the Sales Tax Revenue Bonds of 2007. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2012, \$900,000.00 of bonds outstanding was considered defeased and the liability was removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$42,155.00. This amount is being netted against the new debt and amortized over the life of the refunded debt (on a straight-line basis, as the difference between straight-line and effective interest methods was immaterial), which is the same as the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over ten years by \$89,214.17 and resulted in an economic gain of \$80,390.00. Economic gain is defined as the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate of the new debt and adjusted for additional cash paid.

The 2012 Bonds are dated July 1, 2012, with annual principal payments ranging from \$90,000.00 to \$110,000.00, and semi-annual interest payments at rates ranging from 0.75% to 2.25% per annum. Interest payments commenced on November 1, 2012 and final maturity is May 1, 2022. The 2012 Bonds are included in the Paving Reserve Fund and are secured by a pledge of the city's general sales and use tax receipts. Under the terms of the bond agreement, \$94,500.00 of cash is restricted in the Paving Reserve fund.

The discount of \$14,175.00 was recorded as a reduction to the outstanding balance of the 2012 Bonds in the December 31, 2012 Statement of Net Position. This amount was capitalized and is being amortized to interest expense on a straight-line basis (as the difference between straight-line and effective interest methods was immaterial) over the bond maturity period. It was recorded as an other financing use of the Paving Reserve Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for the year ended December 31, 2012.

Refunding Improvement Bonds of 2012 - Advance Refunding

The city authorized the issuance of the Refunding Improvement Bonds of 2012 (Refunding Bonds) with a par value of \$600,000.00 at a discount of \$9,000.00. The purpose of the Refunding Bonds was to pay the remaining balance on the Refunding Improvement Bonds of 2007. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the refunded bonds. As of December 31, 2012, \$555,000.00 of bonds outstanding were considered defeased and the liability was removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt by \$25,182.50. This amount is being netted against the new debt and amortized over the life of the refunded debt (on a straight-line basis, as the difference between straight-line and effective interest methods was immaterial), which is the same as the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over ten years by \$44,173.75 and resulted in an economic gain of \$39,181.89.

The Refunding Bonds are dated July 1, 2012, with annual principal payments ranging from \$50,000.00 to \$75,000.00, and semi-annual interest payments at rates ranging from 0.85% to 1.9% per annum. Interest payments commence on November 1, 2012 and final maturity is May 1, 2022. The Refunding Bonds are included in the 2007 Street Fund and are payable from the revenues of this fund, which include special assessments against benefited property and any taxes or other revenues levied for that purpose.

The discount of \$9,000.00 was recorded as a reduction to the outstanding balance of the Refunding Bonds in the December 31, 2012 Statement of Net Position. This amount was capitalized and is being amortized to interest expense on a straight-line basis (as the difference between straight-line and effective interest methods was immaterial) over the bond maturity period. It was recorded as an other financing use of the 2007 Street Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds for the year ended December 31, 2012.

Outstanding debt at December 31, 2015 consists of the following issues:

Revenue Bonds

| | |
|---|---------------------|
| \$750,000 State Revolving Fund Bonds/Loan due in annual installments of \$30,000 to \$46,000 through September 1, 2025; interest at 2.5%. | \$ 415,000.00 |
| \$945,000 Sales Tax Revenue Refunding Bonds of 2014, due in annual installments of \$90,000 to \$100,000 through May 1, 2022; interest of 0.75% to 2.25%. | 665,000.00 |
| \$1,350,000 Sales Tax Revenue Bonds of 2011, due in annual installments of \$70,000 to \$115,000 through May 1, 2026; interest of 1.15% to 3.8%. | <u>1,040,000.00</u> |
| Total Revenue Bonds | <u>2,120,000.00</u> |

Special Assessment Bonds

| | |
|--|-----------------------|
| \$875,000 Refunding Improvement Bonds of 2011, due in annual installments of \$40,000 to \$55,000 through May 1, 2026; interest of 1.0% to 3.8%. | 640,000.00 |
| \$600,000 Refunding Improvement Bonds of 2014, due in annual installments of \$50,000 to 75,000 through May 1, 2022; interest of 0.85% to 1.9%. | <u>395,000.00</u> |
| Total Refunding Bonds | <u>1,035,000.00</u> |
| Total Government Debt (excluding compensated absences) | <u>\$3,155,000.00</u> |

The annual requirements to amortize outstanding debt are as follows:

| Year Ending December 31, | Revenue Bonds | | |
|-----------------------------|------------------------|----------------------|------------------------|
| | Principal | Interest | Total |
| 2016 | \$ 207,000.00 | \$ 56,352.50 | \$ 263,352.50 |
| 2017 | 208,000.00 | 52,837.50 | 260,837.50 |
| 2018 | 219,000.00 | 48,327.50 | 267,327.50 |
| 2019 | 225,000.00 | 43,235.00 | 268,235.00 |
| 2020 | 231,000.00 | 37,960.00 | 268,960.00 |
| 2021-2025 | 915,000.00 | 94,775.00 | 1,009,775.00 |
| 2026 | 115,000.00 | 2,185.00 | 117,185.00 |
| Totals | <u>\$ 2,120,000.00</u> | <u>\$ 335,672.50</u> | <u>\$ 2,455,672.50</u> |

| Year Ending December 31, | Special Assessment Bonds | | |
|-----------------------------|--------------------------|----------------------|------------------------|
| | Principal | Interest | Total |
| 2016 | \$ 125,000.00 | \$ 25,377.50 | \$ 150,377.50 |
| 2017 | 125,000.00 | 23,697.50 | 148,697.50 |
| 2018 | 120,000.00 | 21,147.50 | 141,147.50 |
| 2019 | 115,000.00 | 18,357.50 | 133,357.50 |
| 2020 | 115,000.00 | 15,662.50 | 130,662.50 |
| 2021-2025 | 380,000.00 | 38,406.25 | 418,406.25 |
| 2026 | 55,000.00 | 1,045.00 | 56,045.00 |
| Totals | <u>\$ 1,035,000.00</u> | <u>\$ 143,693.75</u> | <u>\$ 1,178,693.75</u> |

NOTE 7: FUND BALANCE

Fund balance as of December 31, 2015 is as follows:

| Fund Balances: | Major Special Revenue Funds | | | | Sales Tax 40% | Other Governmental Funds | Total |
|---|-----------------------------|-----------------|-----------------|---------------|-----------------|--------------------------|-----------------|
| | General Fund | Fire Department | Paving Reserve | Streets | | | |
| Nonspendable: | | | | | \$ 641,217.73 | \$ - | \$ 641,217.73 |
| Loans Receivable | \$ - | \$ - | \$ - | \$ - | | | |
| Restricted for: | | | | | | 207,000.00 | 207,000.00 |
| Debt Service Reserve | - | - | - | - | - | 233,901.53 | 233,901.53 |
| Fire Trucks | - | - | - | - | - | - | - |
| Social Security and Retirement | - | - | - | - | - | 195,847.65 | 195,847.65 |
| Capital Projects | - | - | - | - | - | 109,945.33 | 109,945.33 |
| Advertising | - | - | - | - | - | 29,087.26 | 29,087.26 |
| Band | - | - | - | - | - | 5,660.16 | 5,660.16 |
| Committed: | | | | | 624,240.37 | 97,367.66 | 721,608.03 |
| Economic Development | - | - | - | - | - | - | 585,936.57 |
| Fire Department | 403,213.61 | 182,722.96 | - | - | - | - | - |
| Law Enforcement | - | - | - | - | - | - | 37,150.64 |
| Employee Benefits | 37,150.64 | - | - | - | - | - | 397,602.27 |
| Streets | - | - | - | 390,972.63 | - | 6,629.64 | 47,673.65 |
| Equipment | 47,673.65 | - | - | - | - | - | 1,823,011.67 |
| Debt Service | - | - | 1,386,675.48 | - | - | 436,336.19 | 12,640.00 |
| Audit Reserve | 12,640.00 | - | - | - | - | - | 352,026.27 |
| Office Reserve | 352,026.27 | - | - | - | - | - | 14,350.00 |
| Airport Reserve | 14,350.00 | - | - | - | - | - | - |
| New Pool Facility Reserve | 101,846.62 | - | - | - | - | - | 101,846.62 |
| New Arena Facility and Park Board Reserve | 930,706.66 | - | - | - | - | - | 930,706.66 |
| Trails System Reserve | 26,652.94 | - | - | - | - | - | 26,652.94 |
| Beautification | 42,147.25 | - | - | - | - | - | 42,147.25 |
| City Property and Forestry | - | - | - | - | - | 156,017.31 | 156,017.31 |
| Armory | - | - | - | - | - | 175,909.71 | 175,909.71 |
| Disaster | 21,500.00 | - | - | - | - | - | 21,500.00 |
| Unassigned: | 1,324,204.16 | - | - | - | - | - | 1,324,204.16 |
| | \$ 3,314,111.80 | \$ 182,722.96 | \$ 1,386,675.48 | \$ 390,972.63 | \$ 1,265,458.10 | \$ 1,653,702.44 | \$ 8,193,643.41 |

Fund balance as of December 31, 2014 is as follows:

| Fund Balances: | Major Special Revenue Funds | | | | Sales Tax 40% | Other Governmental Funds | Total |
|---|-----------------------------|-----------------|----------------|---------------|-----------------|--------------------------|-----------------|
| | General Fund | Fire Department | Paving Reserve | Streets | | | |
| Nonspendable: | | | | | \$ 610,186.82 | \$ - | \$ 610,186.82 |
| Loans Receivable | \$ - | \$ - | \$ - | \$ - | | | |
| Restricted for: | | | | | | 207,000.00 | 207,000.00 |
| Debt Service Reserve | - | - | - | - | - | 201,283.30 | 201,283.30 |
| Fire Trucks | - | - | - | - | - | - | - |
| Social Security and Retirement | - | - | - | - | - | 178,003.98 | 178,003.98 |
| Capital Projects | - | - | - | - | - | 115,042.81 | 115,042.81 |
| Advertising | - | - | - | - | - | 35,096.29 | 35,096.29 |
| Band | - | - | - | - | - | 4,116.20 | 4,116.20 |
| Committed: | | | | | 562,832.59 | 109,696.44 | 672,529.03 |
| Economic Development | - | - | - | - | - | - | 426,942.50 |
| Fire Department | 241,213.61 | 185,728.89 | - | - | - | - | - |
| Law Enforcement | - | - | - | - | - | - | 34,650.64 |
| Employee Benefits | 34,650.64 | - | - | - | - | - | 396,403.76 |
| Streets | - | - | - | 396,403.76 | - | - | 27,332.70 |
| Equipment | 27,332.70 | - | - | - | - | - | 1,367,334.75 |
| Debt Service | - | - | 881,625.95 | - | - | 485,708.80 | 2,640.00 |
| Audit Reserve | 2,640.00 | - | - | - | - | - | 29,188.02 |
| Office Reserve | 29,188.02 | - | - | - | - | - | 12,850.00 |
| Airport Reserve | 12,850.00 | - | - | - | - | - | - |
| New Pool Facility Reserve | 86,846.62 | - | - | - | - | - | 86,846.62 |
| New Arena Facility and Park Board Reserve | 353,706.66 | - | - | - | - | - | 353,706.66 |
| Trails System Reserve | 25,000.00 | - | - | - | - | - | 25,000.00 |
| Beautification | 48,731.08 | - | - | - | - | - | 48,731.08 |
| City Property and Forestry | - | - | - | - | - | 117,368.81 | 117,368.81 |
| Armory | - | - | - | - | - | 170,373.48 | 170,373.48 |
| Disaster | 21,500.00 | - | - | - | - | - | 21,500.00 |
| Unassigned: | 1,226,709.12 | - | - | - | - | - | 1,226,709.12 |
| | \$ 2,110,368.45 | \$ 185,728.89 | \$ 881,625.95 | \$ 396,403.76 | \$ 1,173,019.41 | \$ 1,623,690.11 | \$ 6,370,836.57 |

NOTE 8: NET POSITION

At December 31, 2015, the government-wide Statement of Net Position reported \$781,441.93 in restricted net position, of which \$574,441.93 was restricted by enabling legislation. At December 31, 2014, the government-wide Statement of Net Position reported \$740,542.58 in restricted net position, of which \$533,542.58 was restricted by enabling legislation.

NOTE 9: TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31, 2015 and 2014:

| Fund | Year Ended December 31, 2015 | |
|-----------------------------|------------------------------|-----------------|
| | Transfers In | Transfers Out |
| <u>Governmental Funds:</u> | | |
| General Fund | \$ 1,810,653.59 | \$ 2,668,703.75 |
| Paving Reserve | - | 17,619.55 |
| Streets | 78.83 | 10,454.12 |
| Nonmajor Governmental Funds | 178,768.78 | 267,078.83 |
| Total Governmental Funds | 1,989,501.20 | 2,963,856.25 |
| <u>Enterprise Funds:</u> | | |
| Water | 549,227.08 | 24,600.00 |
| Sewer | 362,317.96 | 26,145.14 |
| Garbage | 140,000.00 | 26,444.85 |
| Total Enterprise Funds | 1,051,545.04 | 77,189.99 |
| Total Transfers | \$ 3,041,046.24 | \$ 3,041,046.24 |
| | | |
| Fund | Year Ended December 31, 2014 | |
| | Transfers In | Transfers Out |
| <u>Governmental Funds:</u> | | |
| General Fund | \$ 700,022.01 | \$ 1,138,501.61 |
| Paving Reserve | 28,572.84 | - |
| Streets | - | 10,896.89 |
| Sales Tax 40% | - | - |
| Nonmajor Governmental Funds | 24,607.41 | 115,073.13 |
| Total Governmental Funds | 753,202.26 | 1,264,471.63 |
| <u>Enterprise Funds:</u> | | |
| Water | 289,113.61 | 24,600.00 |
| Sewer | 175,377.16 | 25,979.81 |
| Garbage | 121,712.50 | 24,354.09 |
| Total Enterprise Funds | 586,203.27 | 74,933.90 |
| Total Transfers | \$ 1,339,405.53 | \$ 1,339,405.53 |

Transfers listed above were the result of normal operating budget transfers and client error corrections. Additionally, the increased level of transfers in 2015 was the result of the city council's decision to expend a large portion of the unrestricted state surge money that it received on enterprise fund capital expenditures.

NOTE 10: PROPERTY TAXES

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

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

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

NOTE 11: PENSION PLANS

All eligible employees of the City of Bottineau participate in a 457 retirement plan through Scudder Investments. The plan is a defined contribution plan with the pension plan responsible for benefits. The city is responsible only for current contributions to the plan.

Employees of the city are eligible to participate in the plan if they meet the following three requirements: (1) are full-time employees, (2) have been employed by the city for at least 90 days, and (3) contributes at least 4% of their salary to the plan. The benefits provided under the plan are funded solely by the contributions to the plan by the employee and employer and the earnings on those contributions. The contributions are based on the employee's salary with the employee contributing a minimum of 4% with the city matching the employee's 4%. Employees may contribute more than 4%, provided total contributions do not exceed \$8,000.00. The city's contributions for the years ending December 31, 2015, 2014 and 2013 were \$24,441.72, \$24,894.42 and \$22,381.59, respectively.

NOTE 12: RISK MANAGEMENT

The City of Bottineau 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 (NDRIF), 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 of Bottineau pays an annual premium to NDRIF for its general liability, automobile, and public asset insurance coverage. The coverage by NDRIF is limited to losses of two million dollars per occurrence for general liability and automobile insurance and \$1,220,836.00 for public asset coverage.

The City of Bottineau also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Bottineau 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City of Bottineau with blanket fidelity bond coverage in the amount of \$2,000,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Bottineau has workers' compensation with North Dakota Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance.

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

NOTE 13: SUBSEQUENT EVENTS

The city has evaluated subsequent events through July 31, 2017, the date which the financial statements were available to be issued.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2015

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|------------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 368,046.00 | \$ 327,326.03 | \$ (40,719.97) |
| Licenses, Permits and Fees | 20,300.00 | 26,101.07 | 5,801.07 |
| Intergovernmental | 662,300.00 | 598,226.58 | (64,073.42) |
| Charges for Services | 16,300.00 | 25,049.13 | 8,749.13 |
| Fines and Forfeits | 5,000.00 | 7,602.43 | 2,602.43 |
| Interest Income | 31,000.00 | 36,612.17 | 5,612.17 |
| Grants | 1,500.00 | 3,350,606.00 | 3,349,106.00 |
| Miscellaneous | 250.00 | 11,158.79 | 10,908.79 |
| Total Revenues | 1,104,696.00 | 4,382,682.20 | 3,277,986.20 |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| General Government | 359,786.00 | 289,898.81 | 69,887.19 |
| Public Safety | 374,850.00 | 361,990.65 | 12,859.35 |
| Culture and Recreation | 10,000.00 | 40,212.50 | (30,212.50) |
| Other | 22,100.00 | 95,657.78 | (73,557.78) |
| Capital Outlay | 30,000.00 | 1,533,128.95 | (1,503,128.95) |
| Total Expenditures | 796,736.00 | 2,320,888.69 | (1,524,152.69) |
| Excess of Revenues Over (Under) Expenditures | 307,960.00 | 2,061,793.51 | 1,753,833.51 |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers In | 637,500.00 | 1,810,653.59 | 1,173,153.59 |
| Transfers Out | (883,300.00) | (2,668,703.75) | (1,785,403.75) |
| Total Other Financing Sources (Uses) | (245,800.00) | (858,050.16) | (612,250.16) |
| Net Change in Fund Balances | 62,160.00 | 1,203,743.35 | 1,141,583.35 |
| Fund Balance - January 1 | 2,110,368.45 | 2,110,368.45 | - |
| Fund Balance - December 31 | \$ 2,172,528.45 | \$ 3,314,111.80 | \$ 1,141,583.35 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2014

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|------------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 303,400.00 | \$ 303,160.67 | \$ (239.33) |
| Licenses, Permits and Fees | 16,350.00 | 30,424.90 | 14,074.90 |
| Intergovernmental | 626,375.00 | 882,454.31 | 256,079.31 |
| Charges for Services | 21,300.00 | 23,516.96 | 2,216.96 |
| Fines and Forfeits | 7,500.00 | 2,642.47 | (4,857.53) |
| Interest Income | 14,250.00 | 27,335.58 | 13,085.58 |
| Grants | 160,000.00 | 160,000.00 | - |
| Miscellaneous | 250.00 | 14,632.68 | 14,382.68 |
| Total Revenues | 1,149,425.00 | 1,444,167.57 | 294,742.57 |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| General Government | 301,686.00 | 248,463.50 | 53,222.50 |
| Public Safety | 343,000.00 | 324,644.19 | 18,355.81 |
| Culture and Recreation | 100,000.00 | 100,000.00 | - |
| Other | 17,589.00 | 59,544.56 | (41,955.56) |
| Capital Outlay | 536,000.00 | 43,158.56 | 492,841.44 |
| Total Expenditures | 1,298,275.00 | 775,810.81 | 522,464.19 |
| Excess of Revenues Over (Under) Expenditures | (148,850.00) | 668,356.76 | 817,206.76 |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers In | 248,425.00 | 700,022.01 | 451,597.01 |
| Transfers Out | (50,500.00) | (1,138,501.61) | (1,088,001.61) |
| Other | 3,000.00 | - | (3,000.00) |
| Total Other Financing Sources (Uses) | 200,925.00 | (438,479.60) | (639,404.60) |
| Net Change in Fund Balances | 52,075.00 | 229,877.16 | 177,802.16 |
| Fund Balance - January 1 | 1,880,491.29 | 1,880,491.29 | - |
| Fund Balance - December 31 | \$ 1,932,566.29 | \$ 2,110,368.45 | \$ 177,802.16 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
FIRE DEPARTMENT FUND
For the Year Ended December 31, 2015

| | Original and Final Budget | Actual | Variance with Final Budget |
|-----------------------------|------------------------------|----------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Intergovernmental | \$ 23,500.00 | \$ 28,804.26 | \$ 5,304.26 |
| Charges for Services | 15,600.00 | 17,015.56 | 1,415.56 |
| Interest Income | 50.00 | 2,036.84 | 1,986.84 |
| Miscellaneous | 77,500.00 | 48,253.94 | (29,246.06) |
| Total Revenues | <u>116,650.00</u> | <u>96,110.60</u> | <u>(20,539.40)</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Public Safety | 116,650.00 | 99,116.53 | 17,533.47 |
| Net Change in Fund Balances | - | (3,005.93) | (3,005.93) |
| Fund Balance - January 1 | <u>185,728.89</u> | <u>185,728.89</u> | - |
| Fund Balance - December 31 | <u>\$ 185,728.89</u> | <u>\$ 182,722.96</u> | <u>\$ (3,005.93)</u> |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
FIRE DEPARTMENT FUND
For the Year Ended December 31, 2014

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------|--------------------------------------|-------------------|---------------------------------------|
| <u>Revenues:</u> | | | |
| Intergovernmental | \$ 23,500.00 | \$ 23,476.56 | \$ (23.44) |
| Charges for Services | 20,000.00 | 25,234.33 | 5,234.33 |
| Interest Income | 50.00 | 1,127.87 | 1,077.87 |
| Miscellaneous | 50,000.00 | 51,845.23 | 1,845.23 |
| Total Revenues | 93,550.00 | 101,683.99 | 8,133.99 |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Public Safety | 93,550.00 | 87,448.98 | 6,101.02 |
| Net Change in Fund Balances | - | 14,235.01 | 14,235.01 |
| Fund Balance - January 1 | 171,493.88 | 171,493.88 | - |
| Fund Balance - December 31 | \$ 171,493.88 | \$ 185,728.89 | \$ 14,235.01 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
PAVING RESERVE FUND
For the Year Ended December 31, 2015

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|------------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 700,000.00 | \$ 768,614.34 | \$ 68,614.34 |
| Licenses, Permits and Fees | 3,000.00 | 14,000.00 | 11,000.00 |
| Miscellaneous | - | 14.12 | 14.12 |
| Total Revenues | 703,000.00 | 782,628.46 | 79,628.46 |
| <u>Current:</u> | | | |
| Public Works | 25,000.00 | 13,156.42 | 11,843.58 |
| <u>Debt Service:</u> | | | |
| Principal | 160,000.00 | 175,000.00 | (15,000.00) |
| Interest | 50,000.00 | 50,466.00 | (466.00) |
| Capital Outlay | 305,000.00 | 21,336.96 | 283,663.04 |
| Total Expenditures | 540,000.00 | 259,959.38 | 280,040.62 |
| Excess of Revenues Over (Under) Expenditures | 163,000.00 | 522,669.08 | 359,669.08 |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers Out | (200,000.00) | (17,619.55) | 182,380.45 |
| Net Change in Fund Balances | (37,000.00) | 505,049.53 | 542,049.53 |
| Fund Balance - January 1 | 881,625.95 | 881,625.95 | - |
| Fund Balance - December 31 | \$ 844,625.95 | \$ 1,386,675.48 | \$ 542,049.53 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
PAVING RESERVE FUND
For the Year Ended December 31, 2014

| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|---|--------------------------------------|----------------------|---------------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 700,100.00 | \$ 787,341.12 | \$ 87,241.12 |
| Licenses, Permits and Fees | - | 9,401.60 | 9,401.60 |
| Miscellaneous | - | 14.05 | 14.05 |
| Total Revenues | 700,100.00 | 796,756.77 | 96,656.77 |
| <u>Current:</u> | | | |
| Public Works | 25,000.00 | 12,687.80 | 12,312.20 |
| <u>Debt Service:</u> | | | |
| Principal | 170,000.00 | 170,000.00 | - |
| Interest | 50,000.00 | 52,659.00 | (2,659.00) |
| Capital Outlay | - | 27,620.01 | (27,620.01) |
| Total Expenditures | 245,000.00 | 262,966.81 | (17,966.81) |
| Excess of Revenues Over (Under) Expenditures | 455,100.00 | 533,789.96 | 78,689.96 |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers In | 552.00 | 28,572.84 | 28,020.84 |
| Net Change in Fund Balances | 455,652.00 | 562,362.80 | 106,710.80 |
| Fund Balance - January 1 | 319,263.15 | 319,263.15 | - |
| Fund Balance - December 31 | \$ 774,915.15 | \$ 881,625.95 | \$ 106,710.80 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
SALES TAX 40% FUND
For the Year Ended December 31, 2015

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|------------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 229,000.00 | \$ 219,339.43 | \$ (9,660.57) |
| Interest | - | 17,128.11 | 17,128.11 |
| Other | - | 1,608.00 | 1,608.00 |
| Total Revenues | 229,000.00 | 238,075.54 | 9,075.54 |
| <u>Expenditures:</u> | | | |
| <u>Current:</u> | | | |
| Economic Development | 229,000.00 | 145,636.85 | 83,363.15 |
| Total Expenses | 229,000.00 | 145,636.85 | 83,363.15 |
| Excess of Revenues Over (Under) Expenditures | - | 92,438.69 | 92,438.69 |
| Fund Balance - January 1 | 1,173,019.41 | 1,173,019.41 | - |
| Fund Balance - December 31 | \$ 1,173,019.41 | \$ 1,265,458.10 | \$ 92,438.69 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
SALES TAX 40% FUND
For the Year Ended December 31, 2014

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|-----------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Taxes | \$ 210,000.00 | \$ 224,791.27 | \$ 14,791.27 |
| Interest | - | 14,209.11 | 14,209.11 |
| Total Revenues | 210,000.00 | 239,000.38 | 29,000.38 |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Economic Development | 210,000.00 | 84,500.00 | 125,500.00 |
| Other | - | 4,292.06 | (4,292.06) |
| Total Expenses | 210,000.00 | 88,792.06 | 121,207.94 |
| Excess of Revenues Over (Under) Expenditures | - | 150,208.32 | 150,208.32 |
| Fund Balance - January 1 | 1,022,811.09 | 1,022,811.09 | - |
| Fund Balance - December 31 | \$ 1,022,811.09 | \$ 1,173,019.41 | \$ 150,208.32 |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
STREETS FUND
For the Year Ended December 31, 2015

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|----------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Intergovernmental | \$ 273,000.00 | \$ 229,737.12 | \$ (43,262.88) |
| Charges for Services | 53,500.00 | 49,969.70 | (3,530.30) |
| Miscellaneous | - | 490.45 | 490.45 |
| Total Revenues | 326,500.00 | 280,197.27 | (46,302.73) |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| General Government | 314,500.00 | 275,253.11 | 39,246.89 |
| Total Expenditures | 314,500.00 | 275,253.11 | 39,246.89 |
| Excess of Revenues Over (Under) Expenditures | 12,000.00 | 4,944.16 | (7,055.84) |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers In | - | 78.83 | - |
| Transfers Out | (12,000.00) | (10,454.12) | 1,545.88 |
| Total Other Financing Sources (Uses) | (12,000.00) | (10,375.29) | 1,545.88 |
| Net Change in Fund Balances | - | (5,431.13) | (5,509.96) |
| Fund Balance - January 1 | 396,403.76 | 396,403.76 | - |
| Fund Balance - December 31 | \$ 396,403.76 | \$ 390,972.63 | \$ (5,509.96) |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
STREETS FUND
For the Year Ended December 31, 2014

| | Original and Final Budget | Actual | Variance with Final Budget |
|---|------------------------------|----------------------|-------------------------------|
| <u>Revenues:</u> | | | |
| Intergovernmental | \$ 254,500.00 | \$ 244,466.73 | \$ (10,033.27) |
| Charges for Services | 46,250.00 | 51,586.10 | 5,336.10 |
| Miscellaneous | 8,000.00 | - | (8,000.00) |
| Total Revenues | 308,750.00 | 296,052.83 | (12,697.17) |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| General Government | 284,700.00 | 286,720.44 | (2,020.44) |
| Total Expenditures | 284,700.00 | 286,720.44 | (2,020.44) |
| Excess of Revenues Over (Under) Expenditures | 24,050.00 | 9,332.39 | (14,717.61) |
| <u>Other Financing Sources (Uses):</u> | | | |
| Transfers In | 5,000.00 | - | (5,000.00) |
| Transfers Out | (10,000.00) | (10,896.89) | (896.89) |
| Total Other Financing Sources (Uses) | (5,000.00) | (10,896.89) | (5,896.89) |
| Net Change in Fund Balances | 19,050.00 | (1,564.50) | (20,614.50) |
| Fund Balance - January 1 | 397,968.26 | 397,968.26 | - |
| Fund Balance - December 31 | \$ 417,018.26 | \$ 396,403.76 | \$ (20,614.50) |

See accompanying notes to budgetary comparison schedule.

CITY OF BOTTINEAU
Bottineau, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2015 and 2014

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP 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:

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

NOTE 2: EXCESS OF ACTUAL EXPENDITURES OVER BUDGET

During 2015, expenditures exceeded budget in the General Fund by \$1,524,152.69. In addition, expenditures exceeded budget by \$2,020.44 and \$17,966.81 in the Streets and Paving Reserve Funds, respectively, during 2014. No remedial action is anticipated or required by the city with respect to these excess expenditures.

L & J O H N S O N

Certified Public Accountants

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

Governing Board
City of Bottineau
Bottineau, North Dakota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Bottineau, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise City of Bottineau, North Dakota's basic financial statements and have issued our report thereon dated July 31, 2017.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the City of Bottineau, North Dakota's internal control described in the accompanying schedule of findings and responses, items 15-1 and 15-2, to be material weaknesses.

Compliance and Other Matters

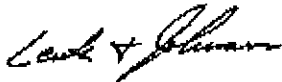
As part of obtaining reasonable assurance about whether City of Bottineau, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

City of Bottineau, North Dakota's Response to Findings

City of Bottineau, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Bottineau, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



LERVIK & JOHNSON
Certified Public Accountants

July 31, 2017

CITY OF BOTTINEAU
Bottineau, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended December 31, 2015 and 2014

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

15-1 Segregation of Duties

Condition:

The City of Bottineau, North Dakota, has one employee responsible for most accounting functions.

Criteria:

There should be sufficient accounting personnel so duties of employees are segregated. The segregation of duties would provide better control over the assets of the City of Bottineau.

Effect:

There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatement of the City of Bottineau's financial condition.

Recommendation:

Due to the size of the City of Bottineau, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response:

No response is considered necessary.

15-2 Preparation of Financial Statements

Condition:

The City of Bottineau does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to assist in drafting the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria:

A good system of internal accounting control contemplates a system designed to prepare financial statements in accordance with generally accepted accounting principles.

Effect:

Inadequate controls over financial reporting of the City of Bottineau result in the more than remote likelihood that the city would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation:

While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the city council should continually be aware of the financial reporting of the city and changes in reporting requirements.

Management's Response:

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of the City of Bottineau, North Dakota.