

# **AUDIT REPORT**

**CITY OF BOWBELLS  
Bowbells, North Dakota**

**For the Years Ended December 31, 2015 and 2014**

**RATH & MEHRER, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF BOWBELLS  
Bowbells, North Dakota



TABLE OF CONTENTS  
For the Years Ended December 31, 2015 and 2014

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-13
 <b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Position - Modified Cash Basis	14,15
Statement of Activities - Modified Cash Basis	16,17
Balance Sheet - Modified Cash Basis - Governmental Funds	18,19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	20,21
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	22,23
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	24,25
Statement of Net Position - Modified Cash Basis - Proprietary Funds	26,27
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	28,29
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	30,31
Statement of Fiduciary Assets and Liabilities - Modified Cash Basis - Agency Funds	32,33
Notes to the Financial Statements	34-45
 <b>SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules - Modified Cash Basis General Fund	46,47
Highway Fund	48,49
Notes to the Budgetary Comparison Schedules	50
Schedule of Fund Activity Arising from Cash Transactions	51,52
Schedule of Expenditures of Federal Awards	53
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	54-55
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	56-57
Schedule of Findings and Responses	58-59

CITY OF BOWBELLS  
Bowbells, North Dakota

CITY OFFICIALS

Tony Pandolfo	Mayor
Jay Hass	Council Member
Shannon Holter	Council Member
Jared Mahlum	Council Member
Gary Melby	Council Member
Lanette Jager	Auditor

# Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA

Ken Mehrer, CPA

425 North Fifth Street

Bismarck, ND 58501

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Bowbells  
Bowbells, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bowbells, Bowbells, 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 the city's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 city'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 city'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 modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bowbells, Bowbells, North Dakota, as of December 31, 2015 and 2014, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## **Basis of Accounting**

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

## **Other Matters**

### Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and schedules of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedules of fund activity arising from cash transactions and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information, schedules of fund activity arising from cash transactions and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2016 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 27, 2016

CITY OF BOWBELLS

Management's Discussion and Analysis

December 31, 2015 and 2014

The Management's Discussion and Analysis (MD&A) of the City of Bowbell's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2015 and 2014. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended December 31, 2015 are as follows:

- \* Total net position of the city increased \$547,063 as a result of the current year's operations. Net position of the governmental activities increased \$547,197 and net position of the business-type activities decreased \$134.
- \* Governmental net position totaled \$2,076,262 and business-type net position totaled \$1,964,262.
- \* Total revenues from all sources were \$2,674,535 for governmental activities and \$225,513 for business-type activities.
- \* Total expenses were \$1,967,338 for governmental activities and \$385,648 for business-type activities.
- \* The city's general fund had \$2,380,775 in total revenues and \$294,820 in total expenditures. There was a total of \$1,192,066 paid from other financing uses. Overall, the general fund balance increased by \$893,889 for the year ended December 31, 2015.

Key financial highlights for the year ended December 31, 2014 are as follows:

- \* Total net position of the city increased \$548,164 as a result of the current year's operations. Net position of the governmental activities increased \$15,019 and net position of the business-type activities increased \$533,145.
- \* Governmental net position totaled \$1,529,065 and business-type net position totaled \$1,964,397.
- \* Total revenues from all sources were \$731,722 for governmental activities and \$692,308 for business-type activities.
- \* Total expenses were \$616,702 for governmental activities and \$259,163 for business-type activities.
- \* The city's general fund had \$365,812 in total revenues and \$187,003 in total expenditures. There was a total of \$104,000 paid from other financing uses. Overall, the general fund balance increased by \$74,809 for the year ended December 31, 2014.

## USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- \* Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- \* Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

## REPORTING ON THE CITY AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2015 and 2014?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works, and culture and recreation. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

#### **REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS**

##### Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund and highway fund are considered "major governmental funds". The city's water fund and sewer fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" or "Other Enterprise Funds".

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Table I provides a summary of the city's net position as of December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$547,063 and 548,164 for the years ended December 31, 2015 and 2014, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2015, the city's net position of \$4,040,524 is segregated into three separate categories. Net investment in capital assets represents 58% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 4% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 38% of the city's net position and is available to meet the city's ongoing obligations.



Table I

Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,587,735	113,474
Capital Assets (net of accumulated depreciation)	488,527	3,310,788
Total Assets	<u>2,076,262</u>	<u>3,424,262</u>
<u>Liabilities</u>		
Current Liabilities		70,000
Long-Term Liabilities		1,390,000
Total Liabilities	<u>0</u>	<u>1,460,000</u>
<u>Net Position</u>		
Net Investment in Capital Assets	488,527	1,850,788
Restricted	173,754	
Unrestricted	1,413,981	113,474
Total Net Position	<u>2,076,262</u> =====	<u>1,964,262</u> =====

As of December 31, 2014, the city's net position of \$3,493,462 is segregated into three separate categories. Net investment in capital assets represents 68% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 14% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 18% of the city's net position and is available to meet the city's ongoing obligations.

Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,009,856	116,000
Capital Assets (net of accumulated depreciation)	519,209	3,349,303
Total Assets	<u>1,529,065</u>	<u>3,465,303</u>
<u>Liabilities</u>		
Current Liabilities		71,120
Long-Term Liabilities		1,429,786
Total Liabilities	<u>0</u>	<u>1,500,906</u>
Net Investment in Capital Assets	519,209	1,848,397
Restricted	489,764	
Unrestricted	520,092	116,000
Total Net Position	<u>1,529,065</u> =====	<u>1,964,397</u> =====

Net Position  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<b><u>Assets</u></b>		
Current Assets	960,154	140,442
Capital Assets (net of accumulated depreciation)	553,892	2,256,660
<b>Total Assets</b>	<b>1,514,046</b>	<b>2,397,102</b>
<b><u>Liabilities</u></b>		
Long-Term Liabilities		965,850
<b><u>Net Position</u></b>		
Net Investment in Capital Assets	553,892	1,290,810
Restricted	514,871	
Unrestricted	445,283	140,442
<b>Total Net Position</b>	<b>1,514,046</b>	<b>1,431,252</b>

Table II shows the changes in net position for the fiscal years ended December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II

Changes in Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<b><u>Program Revenues:</u></b>		
Charges for Services	14,042	225,513
Operating Grants and Contributions	45,059	
<b><u>General Revenues:</u></b>		
Property Taxes	60,816	
Other Taxes	300,763	
Intergovernmental - Unrestricted	2,218,621	
Interest Earnings and Other Revenue	35,234	
<b>Total Revenues</b>	<b>2,674,535</b>	<b>225,513</b>
<b>Expenses</b>		
General Government	267,362	
Public Safety	24,759	
Streets and Public Works	1,492,660	
Culture and Recreation	178,888	
Other	3,668	
Water		151,419
Sewer		170,586
Garbage		63,505
Recycling		138
<b>Total Expenses</b>	<b>1,967,338</b>	<b>385,648</b>
<b>Net Change in Position Before Transfers</b>	<b>707,197</b>	<b>(160,134)</b>
<b>Transfers</b>	<b>(160,000)</b>	<b>160,000</b>
<b>Net Change in Position</b>	<b>547,197</b>	<b>(134)</b>

Property taxes constituted 2%, other taxes 10%, unrestricted intergovernmental 77%, operating grants and contributions 2%, and charges for services made up 8% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 11%, public safety 1%, streets and public works 63%, and enterprise 16% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	13,485	225,958
Operating Grants and Contributions	47,571	466,350
<u>General Revenues:</u>		
Property Taxes	61,461	
Other Taxes	559,726	
Intergovernmental - Unrestricted	40,145	
Interest Earnings and Other Revenue	9,333	
Total Revenues	731,722	692,308
<b>Expenses</b>		
General Government	174,377	
Public Safety	21,554	
Streets and Public Works	324,572	
Culture and Recreation	7,073	
Other	89,126	
Water		185,383
Sewer		20,008
Garbage		53,481
Recycling		291
Total Expenses	616,702	259,163
Net Change in Position Before Transfers	115,019	433,145
Transfers	(100,000)	100,000
Net Change in Position	15,019	533,145

Property taxes constituted 4%, other taxes 39%, unrestricted intergovernmental 3%, operating grants and contributions 36%, and charges for services made up 17% of the total revenues of all activities of the city for the fiscal year ended December 31, 2014.

General government constituted 20%, public safety 2%, streets and public works 37%, and enterprise 30% of total expenses for all activities during the fiscal year ended December 31, 2014.

Changes in Net Position  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	3,568	179,091
Operating Grants and Contributions	61,978	1,010,842
<u>General Revenues:</u>		
Property Taxes	67,673	
Other Taxes	552,782	
Intergovernmental - Unrestricted	31,640	
Interest Earnings and Other Revenue	159,945	11
<b>Total Revenues</b>	<u>877,586</u>	<u>1,189,945</u>
<b>Expenses</b>		
General Government	141,494	
Public Safety	16,967	
Streets and Public Works	133,713	
Culture and Recreation	6,258	
Other	25,756	
Water		145,634
Sewer		8,267
Garbage		49,830
Recycling		6,234
<b>Total Expenses</b>	<u>324,187</u>	<u>209,965</u>
<b>Net Change in Position Before Transfers</b>	<u>553,399</u>	<u>979,980</u>
<b>Transfers</b>	<u>(130,000)</u>	<u>130,000</u>
<b>Net Change in Position</b>	<u>423,399</u>	<u>1,109,980</u>
	=====	=====

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services  
As of December 31, 2015

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	267,362	253,615
Public Safety	24,759	24,759
Streets and Public Works	1,492,660	1,447,601
Culture and Recreation	178,888	178,593
Other	3,668	3,668
<b>Total Expenses</b>	<b><u>1,967,338</u></b> =====	<b><u>1,908,237</u></b> =====

Total and Net Cost of Services  
As of December 31, 2014

	Total Cost Year Ended <u>Dec. 31, 2014</u>	Net Cost Year Ended <u>Dec. 31, 2014</u>
General Government	174,377	172,575
Public Safety	21,554	21,554
Streets and Public Works	324,572	277,001
Culture and Recreation	7,073	7,073
Other	89,126	77,443
<b>Total Expenses</b>	<b><u>616,702</u></b> =====	<b><u>555,646</u></b> =====

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$2,674,535 and expenditures of \$1,936,656 for the year ended December 31, 2015. For the year ended December 31, 2014, the city's governmental funds had total revenue of \$731,722 and expenditures of \$582,019. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$1,413,981. As of December 31, 2014, the unassigned fund balance of the city's general fund was \$520,092.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal years 2015 and 2014, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2015 was \$1,693,450 more than budgeted. This variance was mainly due to the city underestimating surge funds received from the state. Actual expenditures for the year ended December 31, 2015 were under budget by \$98,533.45. This variance was mainly due to the city overestimating appropriations for streets and public works.

Actual revenue for the year ended December 31, 2014 was \$282,130 less than budgeted. This variance was mainly due to the city overestimating tax collections and oil and gas funds received. Actual expenditures for the year ended December 31, 2014 were under budget by \$234,520. This variance was mainly due to the city overestimating appropriations for general government and streets and public works.

**CAPITAL ASSETS**

As of December 31, 2015 and 2014, the city had \$3,799,315 and \$3,868,512, respectively, invested in capital assets. The following tables show the balances, for governmental activities and business-type activities, as of December 31, 2015, 2014 and 2013.

Table IV

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Land	90,000	
Buildings and Infrastructure	158,480	3,310,788
Machinery and Vehicles	240,047	
Total (net of depreciation)	<u>488,527</u> =====	<u>3,310,788</u> =====

This total represents a decrease of \$69,197 in capital assets from January 1, 2015. The increase in buildings and infrastructure was due to the completion of water and sewer projects.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Land	90,000	
Construction in Progress		1,005,191
Buildings and Infrastructure	166,770	2,344,112
Machinery and Vehicles	262,439	
Total (net of depreciation)	<u>519,209</u> =====	<u>3,349,303</u> =====

This total represents an increase of \$1,057,960 in capital assets from January 1, 2014. The increase in buildings and infrastructure was due to continuing water and sewer projects.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Land	90,000	
Construction in Progress		2,186,835
Buildings and Infrastructure	175,060	69,825
Machinery and Vehicles	288,832	
Total (net of depreciation)	<u>553,892</u> =====	<u>2,256,660</u> =====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 4 to the audited financial statements which follow this analysis.

## **DEBT ADMINISTRATION**

As of December 31, 2015, the city had \$1,460,000 in outstanding debt of which \$70,000 was due within one year. As of December 31, 2014, the city had \$1,500,906 in outstanding debt of which \$71,120 was due within one year.

During fiscal years 2015 and 2014, the city issued the following long-term debt obligations:

Revenue Bonds Payable, final drawdown in the amount of \$107,250. The city issued the Water Improvement Revenue Bonds, Series 2011, to finance the continuing watermain replacement project. The final loan amount is \$1,073,100.

Revenue Bonds Payable, in the amount of \$685,005. The city issued the Sewer Improvement Revenue Bonds, Series 2014, to finance the continuing lagoon project. The city received loan forgiveness of \$186,985 and the final loan amount is \$498,020.

For a detailed breakdown of the long-term debt, readers are referred to Note 5 to the audited financial statements which follow this analysis.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Lanette Jager, City Auditor, Bowbells, ND.

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash, Cash Equivalents and Investments	1,587,735.02	113,474.29	1,701,209.31
Capital Assets (net of accumulated depreciation):			
Land	90,000.00		90,000.00
Buildings and Infrastructure	158,480.00	3,310,788.00	3,469,268.00
Machinery and Vehicles	240,047.00		240,047.00
	488,527.00	3,310,788.00	3,799,315.00
Total Capital Assets			
Total Assets	2,076,262.02	3,424,262.29	5,500,524.31
<b>LIABILITIES:</b>			
Long-Term Liabilities			
Due Within One Year			
Revenue Bonds Payable		70,000.00	70,000.00
Due After One Year			
Revenue Bonds Payable		1,390,000.00	1,390,000.00
		1,460,000.00	1,460,000.00
Total Liabilities			
<b>NET POSITION:</b>			
Net Investment in Capital Assets	488,527.00	1,850,788.00	2,339,315.00
Restricted for:			
Special Purposes	173,753.88		173,753.88
Unrestricted	1,413,981.14	113,474.29	1,527,455.43
	2,076,262.02	1,964,262.29	4,040,524.31
Total Net Position	2,076,262.02	1,964,262.29	4,040,524.31

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



CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>ASSETS:</u></b>			
Cash, Cash Equivalents and Investments	1,009,855.93	115,999.66	1,125,855.59
Capital Assets (net of accumulated depreciation):			
Land	90,000.00		90,000.00
Construction in Progress		1,005,191.00	1,005,191.00
Buildings and Infrastructure	166,770.00	2,344,112.00	2,510,882.00
Machinery and Vehicles	262,439.00		262,439.00
Total Capital Assets	519,209.00	3,349,303.00	3,868,512.00
Total Assets	1,529,064.93	3,465,302.66	4,994,367.59
<b><u>LIABILITIES:</u></b>			
Long-Term Liabilities:			
Due Within One Year			
Revenue Bonds Payable		71,120.00	71,120.00
Due After One Year			
Revenue Bonds Payable		1,429,786.00	1,429,786.00
Total Liabilities		1,500,906.00	1,500,906.00
<b><u>NET POSITION:</u></b>			
Net Investment in Capital Assets	519,209.00	1,848,397.00	2,367,606.00
Restricted for:			
Special Purposes	489,763.83		489,763.83
Unrestricted	520,092.10	115,999.66	636,091.76
Total Net Position	1,529,064.93	1,964,396.66	3,493,461.59

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2015

	Net (Expense) Revenue and Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Functions/Programs</u>					
<u>Primary Government:</u>					
<u>Governmental Activities:</u>					
General Government	267,362.35	13,746.88		(253,615.47)	(253,615.47)
Public Safety	24,758.95			(24,758.95)	(24,758.95)
Streets and Public Works	1,492,660.27		45,059.34	(1,447,600.93)	(1,447,600.93)
Culture and Recreation	178,888.20	295.00		(178,593.20)	(178,593.20)
Other	3,668.49			(3,668.49)	(3,668.49)
<b>Total Governmental Activities</b>	<b>1,967,338.26</b>	<b>14,041.88</b>	<b>45,059.34</b>	<b>(1,908,237.04)</b>	<b>(1,908,237.04)</b>
<u>Business-Type Activities:</u>					
Water	151,419.08	118,270.90		(33,148.18)	(33,148.18)
Sewer	170,585.98	41,549.15		(129,036.83)	(129,036.83)
Garbage	63,504.78	65,024.05		1,519.27	1,519.27
Recycling	137.76	669.13		531.37	531.37
<b>Total Business-Type Activities</b>	<b>385,647.60</b>	<b>225,513.23</b>		<b>(160,134.37)</b>	<b>(160,134.37)</b>
<b>Total Primary Government</b>	<b>2,352,985.86</b>	<b>239,555.11</b>	<b>45,059.34</b>	<b>(1,908,237.04)</b>	<b>(160,134.37)</b>
-----					
<u>General Revenues:</u>					
Taxes:					
Property taxes; levied for general purposes			35,043.65		35,043.65
Property taxes; levied for special purposes			25,772.34		25,772.34
Cigarette taxes			1,090.55		1,090.55
Oil and gas production taxes			299,035.48		299,035.48
Homestead tax credit			76.45		76.45
Disabled veterans credit taxes			560.17		560.17
Intergovernmental revenue not restricted to specific programs			2,218,621.25		2,218,621.25
Earnings on investments and other revenue			35,234.24		35,234.24
Transfers			(160,000.00)	160,000.00	
<b>Total General Revenues and Transfers</b>			<b>2,455,434.13</b>	<b>160,000.00</b>	<b>2,615,434.13</b>
<b>Change in Net Position</b>			<b>547,197.09</b>	<b>(134.37)</b>	<b>547,062.72</b>
<b>Net Position - January 1</b>			<b>1,529,064.93</b>	<b>1,964,396.66</b>	<b>3,493,461.59</b>
<b>Net Position - December 31</b>			<b>2,076,262.02</b>	<b>1,964,262.29</b>	<b>4,040,524.31</b>
=====					

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
<b>Functions/Programs</b>						
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General Government	174,376.94	1,802.00		(172,574.94)		(172,574.94)
Public Safety	21,553.61			(21,553.61)		(21,553.61)
Streets and Public Works	324,572.43		47,571.03	(277,001.40)		(277,001.40)
Culture and Recreation	7,073.30			(7,073.30)		(7,073.30)
Other	89,126.11	11,683.28		(77,442.83)		(77,442.83)
<b>Total Governmental Activities</b>	<b>616,702.39</b>	<b>13,485.28</b>	<b>47,571.03</b>	<b>(555,646.08)</b>		<b>(555,646.08)</b>
<b>Business-Type Activities:</b>						
Water	185,382.59	127,684.45			(57,698.14)	(57,698.14)
Sewer	20,008.33	39,287.44	466,350.00		485,629.11	485,629.11
Garbage	53,481.09	57,796.95			4,315.86	4,315.86
Recycling	290.85	1,189.08			898.23	898.23
<b>Total Business-Type Activities</b>	<b>259,162.86</b>	<b>225,957.92</b>	<b>466,350.00</b>		<b>433,145.06</b>	<b>433,145.06</b>
<b>Total Primary Government</b>	<b>875,865.25</b>	<b>239,443.20</b>	<b>513,921.03</b>	<b>(555,646.08)</b>	<b>433,145.06</b>	<b>(122,501.02)</b>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Property taxes; levied for general purposes				33,787.18		33,787.18
Property taxes; levied for special purposes				27,673.63		27,673.63
Financial institution taxes				6,725.96		6,725.96
Cigarette taxes				1,107.65		1,107.65
Oil and gas production taxes				551,399.04		551,399.04
Homestead tax credit				43.47		43.47
Disabled veterans credit taxes				450.23		450.23
Intergovernmental revenue not restricted to specific programs				40,145.13		40,145.13
Earnings on investments and other revenue				9,332.95		9,332.95
Transfers				(100,000.00)	100,000.00	
<b>Total General Revenues</b>				<b>570,665.24</b>	<b>100,000.00</b>	<b>670,665.24</b>
<b>Change in Net Position</b>				<b>15,019.16</b>	<b>533,145.06</b>	<b>548,164.22</b>
<b>Net Position - January 1</b>				<b>1,514,045.77</b>	<b>1,431,251.60</b>	<b>2,945,297.37</b>
<b>Net Position - December 31</b>				<b>1,529,064.93</b>	<b>1,964,396.66</b>	<b>3,493,461.59</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2015

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Highway		
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	1,413,981.14	127,784.93	45,968.95	1,587,735.02
<b>FUND BALANCES:</b>				
Restricted for:				
General Government			18,890.80	18,890.80
Streets and Public Works		127,784.93		127,784.93
Culture and Recreation			18,645.87	18,645.87
Other Special Purposes			8,432.28	8,432.28
Unassigned	1,413,981.14			1,413,981.14
Total Fund Balances	1,413,981.14	127,784.93	45,968.95	1,587,735.02

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2014

	Major Funds			
	General	Highway	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	520,092.10	320,336.58	169,427.25	1,009,855.93
<b>FUND BALANCES:</b>				
Restricted for:				
General Government			18,598.51	18,598.51
Streets and Public Works		320,336.58		320,336.58
Culture and Recreation			75,062.46	75,062.46
Other Special Purposes			75,766.28	75,766.28
Unassigned	520,092.10			520,092.10
Total Fund Balances	520,092.10	320,336.58	169,427.25	1,009,855.93

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds 1,587,735.02

Total net position reported for government 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  
Less Accumulated Depreciation

906,330.00  
(417,803.00)

Net Capital Assets

488,527.00

Total Net Position of Governmental Activities

2,076,262.02  
=====

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2014

Total Fund Balances for Governmental Funds		1,009,855.93
Total net position reported for government 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	906,330.00	
Less Accumulated Depreciation	(387,121.00)	
Net Capital Assets	<hr/>	519,209.00
Total Net Position of Governmental Activities		<hr/> <u>1,529,064.93</u> =====

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

CITY OF BOWBELLS  
Bowbells, 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			Total Governmental Funds
	General	Highway	Other Governmental Funds	
<b>Revenues:</b>				
Taxes	35,043.65		25,772.34	60,815.99
Licenses, Permits and Fees	13,746.88		295.00	14,041.88
Intergovernmental	2,305,625.31	256,791.31	2,026.62	2,564,443.24
Miscellaneous	26,359.15	7,245.11	1,629.98	35,234.24
<b>Total Revenues</b>	<b>2,380,774.99</b>	<b>264,036.42</b>	<b>29,723.94</b>	<b>2,674,535.35</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	251,919.79		11,442.56	263,362.35
Public Safety	24,758.95			24,758.95
Streets and Public Works	9,771.98	1,457,596.29		1,467,368.27
Culture and Recreation	8,368.83		170,519.37	178,888.20
Other			2,278.49	2,278.49
<b>Total Expenditures</b>	<b>294,819.55</b>	<b>1,457,596.29</b>	<b>184,240.42</b>	<b>1,936,656.26</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,085,955.44</b>	<b>(1,193,559.87)</b>	<b>(154,516.48)</b>	<b>737,879.09</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	68,941.82	1,001,008.22	100,000.00	1,169,950.04
Transfers Out	(1,261,008.22)		(68,941.82)	(1,329,950.04)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,192,066.40)</b>	<b>1,001,008.22</b>	<b>31,058.18</b>	<b>(160,000.00)</b>
<b>Net Change in Fund Balances</b>	<b>893,889.04</b>	<b>(192,551.65)</b>	<b>(123,458.30)</b>	<b>577,879.09</b>
<b>Fund Balance - January 1</b>	<b>520,092.10</b>	<b>320,336.58</b>	<b>169,427.25</b>	<b>1,009,855.93</b>
<b>Fund Balance - December 31</b>	<b>1,413,981.14</b>	<b>127,784.93</b>	<b>45,968.95</b>	<b>1,587,735.02</b>

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



CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2014

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General	Highway		
<u>Revenues:</u>				
Taxes	40,513.14		27,673.63	68,186.77
Licenses, Permits and Fees	1,802.00		11,683.28	13,485.28
Intergovernmental	317,417.86	321,357.69	1,941.00	640,716.55
Miscellaneous	6,079.09	2,163.71	1,090.15	9,332.95
<b>Total Revenues</b>	<b>365,812.09</b>	<b>323,521.40</b>	<b>42,388.06</b>	<b>731,721.55</b>
<u>Expenditures:</u>				
Current:				
General Government	160,877.15		9,499.79	170,376.94
Public Safety	21,553.61			21,553.61
Streets and Public Works	4,254.12	291,025.31		295,279.43
Culture and Recreation	318.01		6,755.29	7,073.30
Other			87,736.11	87,736.11
<b>Total Expenditures</b>	<b>187,002.89</b>	<b>291,025.31</b>	<b>103,991.19</b>	<b>582,019.39</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>178,809.20</b>	<b>32,496.09</b>	<b>(61,603.13)</b>	<b>149,702.16</b>
<u>Other Financing Sources (Uses):</u>				
Transfers In			4,000.00	4,000.00
Transfers Out	(104,000.00)			(104,000.00)
<b>Total Other Financing Sources (Uses)</b>	<b>(104,000.00)</b>		<b>4,000.00</b>	<b>(100,000.00)</b>
<b>Net Change in Fund Balances</b>	<b>74,809.20</b>	<b>32,496.09</b>	<b>(57,603.13)</b>	<b>49,702.16</b>
<b>Fund Balance - January 1</b>	<b>445,282.90</b>	<b>287,840.49</b>	<b>227,030.38</b>	<b>960,153.77</b>
<b>Fund Balance - December 31</b>	<b>520,092.10</b>	<b>320,336.58</b>	<b>169,427.25</b>	<b>1,009,855.93</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds 577,879.09

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 depreciation exceeded capital outlay in the current year.

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(30,682.00)	(30,682.00)

Change in Net Position of Governmental Activities		547,197.09
		547,197.09

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and  
Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2014

Net Change in Fund Balances - Total Governmental Funds 49,702.16

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 depreciation exceeded capital outlay in the current year.

	0.00	
Current Year Capital Outlay	(34,683.00)	(34,683.00)
Current Year Depreciation Expense	<u>0.00</u>	<u>0.00</u>
Change in Net Position of Governmental Activities		<u>15,019.16</u> =====

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	46,331.17	40,239.74	26,903.38	113,474.29
<b>Noncurrent Assets:</b>				
Capital Assets (net of accumulated depr):				
Buildings and Infrastructure	2,278,091.00	1,032,697.00		3,310,788.00
<b>Total Assets</b>	<b>2,324,422.17</b>	<b>1,072,936.74</b>	<b>26,903.38</b>	<b>3,424,262.29</b>
=====				
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Revenue Bonds Payable	50,000.00	20,000.00		70,000.00
<b>Noncurrent Liabilities:</b>				
Revenue Bonds Payable	935,000.00	455,000.00		1,390,000.00
<b>Total Liabilities</b>	<b>985,000.00</b>	<b>475,000.00</b>		<b>1,460,000.00</b>
=====				
<b>NET POSITION</b>				
Net Investment in Capital Assets	1,293,091.00	557,697.00		1,850,788.00
Unrestricted	46,331.17	40,239.74	26,903.38	113,474.29
<b>Total Net Position</b>	<b>1,339,422.17</b>	<b>597,936.74</b>	<b>26,903.38</b>	<b>1,964,262.29</b>
=====				

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Funds  
December 31, 2014

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	20,308.35	70,838.57	24,852.74	115,999.66
<b>Noncurrent Assets:</b>				
Capital Assets (net of accumulated depr):				
Construction in Progress		1,005,191.00		1,005,191.00
Buildings and Infrastructure	2,325,362.00	18,750.00		2,344,112.00
<b>Total Noncurrent Assets</b>	<b>2,325,362.00</b>	<b>1,023,941.00</b>		<b>3,349,303.00</b>
<b>Total Assets</b>	<b>2,345,670.35</b>	<b>1,094,779.57</b>	<b>24,852.74</b>	<b>3,465,302.66</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Revenue Bonds Payable	48,100.00	23,020.00		71,120.00
<b>Noncurrent Liabilities:</b>				
Revenue Bonds Payable	985,000.00	444,786.00		1,429,786.00
<b>Total Liabilities</b>	<b>1,033,100.00</b>	<b>467,806.00</b>		<b>1,500,906.00</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	1,292,262.00	556,135.00		1,848,397.00
Unrestricted	20,308.35	70,838.57	24,852.74	115,999.66
<b>Total Net Position</b>	<b>1,312,570.35</b>	<b>626,973.57</b>	<b>24,852.74</b>	<b>1,964,396.66</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	115,242.23			115,242.23
Sewer Collections		41,549.15		41,549.15
Garbage Collections			65,024.05	65,024.05
Recycling Fees			669.13	669.13
Other Collections	3,028.67			3,028.67
<b>Total Operating Revenues</b>	<b>118,270.90</b>	<b>41,549.15</b>	<b>65,693.18</b>	<b>225,513.23</b>
<u>Operating Expenses:</u>				
Repairs and Maintenance	14,370.20	138,219.08		152,589.28
Utilities	2,253.13			2,253.13
Water Purchases	50,548.62			50,548.62
Sanitation Contract			63,504.78	63,504.78
Recycling			137.76	137.76
Miscellaneous	5,983.13			5,983.13
Depreciation	47,271.00	21,458.00		68,729.00
<b>Total Operating Expenses</b>	<b>120,426.08</b>	<b>159,677.08</b>	<b>63,642.54</b>	<b>343,745.70</b>
<b>Operating Income (Loss)</b>	<b>(2,155.18)</b>	<b>(118,127.93)</b>	<b>2,050.64</b>	<b>(118,232.47)</b>
<u>Non-Operating Revenues (Expenses):</u>				
Interest and Service Charges	(30,993.00)	(10,908.90)		(41,901.90)
<b>Income (Loss) Before Transfers</b>	<b>(33,148.18)</b>	<b>(129,036.83)</b>	<b>2,050.64</b>	<b>(160,134.37)</b>
Transfers In	60,000.00	100,000.00		160,000.00
<b>Change in Net Position</b>	<b>26,851.82</b>	<b>(29,036.83)</b>	<b>2,050.64</b>	<b>(134.37)</b>
<b>Net Position - January 1</b>	<b>1,312,570.35</b>	<b>626,973.57</b>	<b>24,852.74</b>	<b>1,964,396.66</b>
<b>Net Position - December 31</b>	<b>1,339,422.17</b>	<b>597,936.74</b>	<b>26,903.38</b>	<b>1,964,262.29</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2014

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<u>Operating Revenues:</u>				
Charges for Sales and Services:				
Water Collections	120,307.31			120,307.31
Sewer Collections		39,287.44		39,287.44
Garbage Collections			57,796.95	57,796.95
Recycling Fees			1,189.08	1,189.08
Other Collections	7,377.14			7,377.14
<b>Total Operating Revenues</b>	<b>127,684.45</b>	<b>39,287.44</b>	<b>58,986.03</b>	<b>225,957.92</b>
<u>Operating Expenses:</u>				
Repairs and Maintenance	52,380.96	16,595.15		68,976.11
Utilities	2,829.17	1,902.84		4,732.01
Water Purchases	56,549.80			56,549.80
Sanitation Contract			53,481.09	53,481.09
Recycling			290.85	290.85
Miscellaneous	803.21	760.34		1,563.55
Depreciation	47,271.00	750.00		48,021.00
<b>Total Operating Expenses</b>	<b>159,834.14</b>	<b>20,008.33</b>	<b>53,771.94</b>	<b>233,614.41</b>
<b>Operating Income (Loss)</b>	<b>(32,149.69)</b>	<b>19,279.11</b>	<b>5,214.09</b>	<b>(7,656.49)</b>
<u>Non-Operating Revenues (Expenses):</u>				
Energy Impact Grants		279,365.00		279,365.00
Loan Forgiveness		186,985.00		186,985.00
Interest and Service Charges	(25,548.45)			(25,548.45)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(25,548.45)</b>	<b>466,350.00</b>		<b>440,801.55</b>
<b>Income (Loss) Before Transfers</b>	<b>(57,698.14)</b>	<b>485,629.11</b>	<b>5,214.09</b>	<b>433,145.06</b>
Transfers In	100,000.00			100,000.00
<b>Change in Net Position</b>	<b>42,301.86</b>	<b>485,629.11</b>	<b>5,214.09</b>	<b>533,145.06</b>
<b>Net Position - January 1</b>	<b>1,270,268.49</b>	<b>141,344.46</b>	<b>19,638.65</b>	<b>1,431,251.60</b>
<b>Net Position - December 31</b>	<b>1,312,570.35</b>	<b>626,973.57</b>	<b>24,852.74</b>	<b>1,964,396.66</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>				
Receipts from customers	118,270.90	41,549.15	65,693.18	225,513.23
Payments to suppliers	(73,155.08)	(138,219.08)	(63,642.54)	(275,016.70)
Net cash provided (used) by operating activities	45,115.82	(96,669.93)	2,050.64	(49,503.47)
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	60,000.00	100,000.00		160,000.00
<u>Cash flows from capital and related financing activities:</u>				
Revenue bonds issued		30,214.00		30,214.00
Lagoon project		(30,214.00)		(30,214.00)
Principal payments	(48,100.00)	(23,020.00)		(71,120.00)
Interest payments	(30,993.00)	(10,908.90)		(41,901.90)
Net cash provided (uses) by capital and related financing activities	(79,093.00)	(33,928.90)		(113,021.90)
Net increase (decrease) in cash and cash equivalents	26,022.82	(30,598.83)	2,050.64	(2,525.37)
Cash and cash equivalents, January 1	20,308.35	70,838.57	24,852.74	115,999.66
Cash and cash equivalents, December 31	46,331.17	40,239.74	26,903.38	113,474.29
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(2,155.18)	(118,127.93)	2,050.64	(118,232.47)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	47,271.00	21,458.00		68,729.00
Net cash provided (used) by operating activities	45,115.82	(96,669.93)	2,050.64	(49,503.47)

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



CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2014

	Major Enterprise Funds		Other Enterprise Funds	Total Enterprise Funds
	Water	Sewer		
<u>Cash flows from operating activities:</u>				
Receipts from customers	127,684.45	39,287.44	58,986.03	225,957.92
Payments to suppliers	(112,563.14)	(19,258.33)	(53,771.94)	(185,593.41)
<b>Net cash provided (used) by operating activities</b>	<b>15,121.31</b>	<b>20,029.11</b>	<b>5,214.09</b>	<b>40,364.51</b>
<u>Cash flows from noncapital financing activities:</u>				
Transfers in	100,000.00			100,000.00
<u>Cash flows from capital and related financing activities:</u>				
Energy impact grants		279,365.00		279,365.00
Revenue bonds issued	107,250.00	654,791.00		762,041.00
Watermain project	(201,758.00)			(201,758.00)
Lagoon project		(938,906.00)		(938,906.00)
Principal payments	(40,000.00)			(40,000.00)
Interest payments	(25,548.45)			(25,548.45)
<b>Net cash provided (uses) by capital and related financing activities</b>	<b>(160,056.45)</b>	<b>(4,750.00)</b>		<b>(164,806.45)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(44,935.14)</b>	<b>15,279.11</b>	<b>5,214.09</b>	<b>(24,441.94)</b>
Cash and cash equivalents, January 1	65,243.49	55,559.46	19,638.65	140,441.60
Cash and cash equivalents, December 31	20,308.35	70,838.57	24,852.74	115,999.66
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>				
Operating income (loss)	(32,149.69)	19,279.11	5,214.09	(7,656.49)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>				
Depreciation expense	47,271.00	750.00		48,021.00
<b>Net cash provided (used) by operating activities</b>	<b>15,121.31</b>	<b>20,029.11</b>	<b>5,214.09</b>	<b>40,364.51</b>

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Agency Funds  
December 31, 2015

	Agency Fund
<b><u>Assets:</u></b>	
Cash	3,909.26
<b><u>Liabilities:</u></b>	
Due to Other Governments	3,909.26
	=====

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Statement of Fiduciary Assets and Liabilities  
Modified Cash Basis - Agency Funds  
December 31, 2014

	Agency Fund
<b><u>Assets:</u></b>	
Cash	3,734.09
<b><u>Liabilities:</u></b>	
Due to Other Governments	3,734.09
	=====

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

CITY OF BOWBELLS  
Bowbells, North Dakota

Notes to the Financial Statements  
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bowbells operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government 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. 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 Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

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

B. Basis of Presentation

*Government-wide Financial Statements:* The statement of net position and the statement of activities display information about the primary government, the City of Bowbells. 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.

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

*Fund Financial Statements:* The fund financial statements provide information about the city's funds including its fiduciary funds. Separate statements for each fund category - governmental, proprietary and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

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

*Highway.* This fund accounts for the state highway tax distribution used for street repairs and maintenance.

The city reports the following major enterprise funds:

*Water.* This fund accounts for the activities of the city's water distribution system.

*Sewer.* This fund accounts for the activities of the city's sewer collection system.

The city reports the following fund type:

*Agency Fund.* This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for various deposits of other governments.

### C. Measurement Focus and Basis of Accounting

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

#### Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

#### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a 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, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

#### D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund 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 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 and Infrastructure	20 to 75 years
Machinery and Vehicles	5 to 20 years

#### F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

#### G. Long-Term Obligations

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

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

#### H. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

#### I. Interfund Transactions

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

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

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

#### J. Use of Estimates

The preparation of financial statements in conformity with the special reporting framework (SRF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.



Note 2 DEPOSITS AND INVESTMENTS

In accordance with North Dakota Statutes, the city maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

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

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

At December 31, 2015 the city's carrying amount of deposits was \$1,705,119 and the bank balance was \$1,729,139. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$1,479,139 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2014 the city's carrying amount of deposits was \$1,129,590 and the bank balance was \$1,136,717. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$886,717 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

The city may invest idle funds as authorized in North Dakota Statutes, as follows:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities or organizations created by an act of Congress.
- (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.
- (4) Obligations of the State.

At December 31, 2015 the city held certificates of deposit in the amount of \$1,158,766, which are all considered deposits.

At December 31, 2014 the city held certificates of deposit in the amount of \$412,518, which are all considered deposits.

Concentration of Credit Risk

The city does not have a limit on the amount the city may invest in any one issuer.

Note 3 PROPERTY TAXES

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

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

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

Note 4 CAPITAL ASSETS

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

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	90,000			90,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	415,800			415,800
Machinery and Vehicles	400,530			400,530
<b>Total</b>	<b>816,330</b>			<b>816,330</b>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	249,030	8,290		257,320
Machinery and Vehicles	138,091	22,392		160,483
<b>Total</b>	<b>387,121</b>	<b>30,682</b>		<b>417,803</b>
<b>Total capital assets being depreciated, net</b>	<b>429,209</b>	<b>(30,682)</b>		<b>398,527</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>519,209</b>	<b>(30,682)</b>	<b>-0-</b>	<b>488,527</b>

2014

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	90,000			90,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	415,800			415,800
Machinery and Vehicles	400,530			400,530
<b>Total</b>	<b>816,330</b>			<b>816,330</b>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	240,740	8,290		249,030
Machinery and Vehicles	111,698	26,393		138,091
<b>Total</b>	<b>352,438</b>	<b>34,683</b>		<b>387,121</b>
<b>Total capital assets being depreciated, net</b>	<b>463,892</b>	<b>(34,683)</b>		<b>429,209</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>553,892</b>	<b>(34,683)</b>	<b>-0-</b>	<b>519,209</b>
	=====	=====	=====	=====

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Const. in Progress	1,005,191	30,214	1,035,405	
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	2,460,058	1,035,405		3,495,463
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	115,946	68,729		184,675
<b>Total capital assets being depreciated, net</b>	<b>2,344,112</b>	<b>966,676</b>		<b>3,310,788</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>3,349,303</b>	<b>996,890</b>	<b>1,035,405</b>	<b>3,310,788</b>
	=====	=====	=====	=====

2014

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>January 1</u>			<u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Const. in Progress	2,186,835	1,140,664	2,322,308	1,005,191
<hr/>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	137,750	2,322,308		2,460,058
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	67,925	48,021		115,946
<hr/>				
Total capital assets being depreciated, net	69,825	2,274,287		2,344,112
<hr/>				
<b>Business-type Activities</b>				
Capital Assets, Net	2,256,660	3,414,951	2,322,308	3,349,303
	=====	=====	=====	=====

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
<b><u>Governmental Activities:</u></b>		
General Government	4,000	4,000
Streets and Public Works	25,292	29,293
Other	1,390	1,390
<hr/>		
Total	30,682	34,683
	=====	=====
 <b><u>Business-type Activities:</u></b>		
Water	47,271	47,271
Sewer	21,458	750
<hr/>		
Total	68,729	48,021
	=====	=====

Note 5 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2015 and 2014, the following changes occurred in liabilities reported in the long-term liabilities:

<u>Business-type Activities</u>					
<u>2015</u>					
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	1,500,906	30,214	71,120	1,460,000	70,000
<u>2014</u>					
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	965,850	762,041	226,985	1,500,906	73,120

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

Business-Type Activities (Proprietary Funds):

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2015, are as follows:

\$1,073,100 Water Improvement Revenue Bonds, Series, 2011, due in annual installments of \$50,000 to \$80,000 through September 1, 2031; is at 2.5%.	985,000
\$498,020 Sewer Improvement Revenue Bonds, Series, 2014, due in annual installments of \$20,000 to \$30,000 through September 1, 2034; is at 2%.	475,000
Total Revenue Bonds Payable	1,460,000

The annual requirements to amortize the outstanding revenue bonds are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	70,000	34,125
2017	70,000	32,475
2018	70,000	30,825
2019	75,000	29,175
2020	75,000	27,400
2021-2025	425,000	108,625
2026-2030	480,000	56,200
2031-2034	195,000	7,600
Total	1,460,000	326,425

Note 6 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:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2015</u>		
General	68,941.82	
Trailer Court		68,941.82
To close fund.		
Recreation	100,000.00	
Water	60,000.00	
Sewer Operating	100,000.00	
General		260,000.00
To subsidize expenditures.		
Highway	1,001,008.22	
General		1,001,008.22
To subsidize street project with surge funding.		
<u>December 31, 2014</u>		
Recreation	4,000.00	
Water Operating	100,000.00	
General		104,000.00
To subsidize expenditures.		

Note 7 RISK MANAGEMENT

The City of Bowbells is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$335,525 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$845,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of 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 8 PENSION PLAN

The city provides benefits for all of its full-time employees through a SEP defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The city contributes 5% of the employee's gross salary for the year. During the years ended December 31, 2015 and 2014, the city contributed \$5,819.41 and \$4,835.64, respectively.

CITY OF BOWBELLS  
Bowbells, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	241,605.14	241,605.14	35,043.65	(206,561.49)
Licenses, Permits and Fees	1,805.00	1,805.00	13,746.88	11,941.88
Intergovernmental	431,065.00	431,065.00	2,305,625.31	1,874,560.31
Miscellaneous	12,850.00	12,850.00	26,359.15	13,509.15
<b>Total Revenues</b>	<b>687,325.14</b>	<b>687,325.14</b>	<b>2,380,774.99</b>	<b>1,693,449.85</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	154,653.00	154,653.00	251,919.79	(97,266.79)
Public Safety	22,500.00	22,500.00	24,758.95	(2,258.95)
Streets and Public Works	216,000.00	216,000.00	9,771.98	206,228.02
Culture and Recreations	200.00	200.00	8,368.83	(8,168.83)
<b>Total Expenditures</b>	<b>393,353.00</b>	<b>393,353.00</b>	<b>294,819.55</b>	<b>98,533.45</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>293,972.14</b>	<b>293,972.14</b>	<b>2,085,955.44</b>	<b>1,791,983.30</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In			68,941.82	68,941.82
Transfers Out	(50,000.00)	(50,000.00)	(1,261,008.22)	(1,211,008.22)
<b>Total Other Financing Sources (Uses)</b>	<b>(50,000.00)</b>	<b>(50,000.00)</b>	<b>(1,192,066.40)</b>	<b>(1,142,066.40)</b>
<b>Net Change in Fund Balances</b>	<b>243,972.14</b>	<b>243,972.14</b>	<b>893,889.04</b>	<b>649,916.90</b>
<b>Fund Balance - January 1</b>	<b>520,092.10</b>	<b>520,092.10</b>	<b>520,092.10</b>	
<b>Fund Balance - December 31</b>	<b>764,064.24</b>	<b>764,064.24</b>	<b>1,413,981.14</b>	<b>649,916.90</b>



CITY OF BOWBELLS  
Bowbells, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	216,806.76	216,806.76	40,513.14	(176,293.62)
Licenses, Permits and Fees	3,005.00	3,005.00	1,802.00	(1,203.00)
Intergovernmental	426,130.00	426,130.00	317,417.86	(108,712.14)
Miscellaneous	2,000.00	2,000.00	6,079.09	4,079.09
<b>Total Revenues</b>	<b>647,941.76</b>	<b>647,941.76</b>	<b>365,812.09</b>	<b>(282,129.67)</b>
<u>Expenditures:</u>				
Current:				
General Government	284,155.00	284,155.00	160,877.15	123,277.85
Public Safety	22,168.00	22,168.00	21,553.61	614.39
Streets and Public Works	115,000.00	115,000.00	4,254.12	110,745.88
Culture and Recreation	200.00	200.00	318.01	(118.01)
<b>Total Expenditures</b>	<b>421,523.00</b>	<b>421,523.00</b>	<b>187,002.89</b>	<b>234,520.11</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>226,418.76</b>	<b>226,418.76</b>	<b>178,809.20</b>	<b>(47,609.56)</b>
<u>Other Financing (Uses):</u>				
Transfers Out			(104,000.00)	(104,000.00)
<b>Net Change in Fund Balances</b>	<b>226,418.76</b>	<b>226,418.76</b>	<b>74,809.20</b>	<b>(151,609.56)</b>
<b>Fund Balance - January 1</b>	<b>445,282.90</b>	<b>445,282.90</b>	<b>445,282.90</b>	
<b>Fund Balance - December 31</b>	<b>671,701.66</b>	<b>671,701.66</b>	<b>520,092.10</b>	<b>(151,609.56)</b>

CITY OF BOWBELLS  
Bowbells, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Highway Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	50,100.00	50,100.00	256,791.31	206,691.31
Miscellaneous			7,245.11	7,245.11
<b>Total Revenues</b>	<b>50,100.00</b>	<b>50,100.00</b>	<b>264,036.42</b>	<b>213,936.42</b>
<u>Expenditures:</u>				
Current:				
Streets and Public Works	144,927.96	144,927.96	1,457,596.29	(1,312,668.33)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(94,827.96)</b>	<b>(94,827.96)</b>	<b>(1,193,559.87)</b>	<b>(1,098,731.91)</b>
<u>Other Financing Sources:</u>				
Transfers In			1,001,008.22	1,001,008.22
<b>Net Change in Fund Balances</b>	<b>(94,827.96)</b>	<b>(94,827.96)</b>	<b>(192,551.65)</b>	<b>(97,723.69)</b>
<b>Fund Balance - January 1</b>	<b>320,336.58</b>	<b>320,336.58</b>	<b>320,336.58</b>	
<b>Fund Balance - December 31</b>	<b>225,508.62</b>	<b>225,508.62</b>	<b>127,784.93</b>	<b>(97,723.69)</b>

CITY OF BOWBELLS  
Bowbells, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Highway Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental	40,000.00	40,000.00	321,357.69	281,357.69
Miscellaneous	1,000.00	1,000.00	2,163.71	1,163.71
<b>Total Revenues</b>	<b>41,000.00</b>	<b>41,000.00</b>	<b>323,521.40</b>	<b>282,521.40</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Streets and Public Works	101,000.00	101,000.00	291,025.31	(190,025.31)
<b>Net Change in Fund Balances</b>	<b>(60,000.00)</b>	<b>(60,000.00)</b>	<b>32,496.09</b>	<b>92,496.09</b>
<b>Fund Balance - January 1</b>	<b>287,840.49</b>	<b>287,840.49</b>	<b>287,840.49</b>	
<b>Fund Balance - December 31</b>	<b>227,840.49</b>	<b>227,840.49</b>	<b>320,336.58</b>	<b>92,496.09</b>

CITY OF BOWBELLS  
Bowbells, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

Based upon available financial information and requests by the governing board, the city auditor prepares the preliminary budget. The city budget is prepared for the general and special revenue funds by function and activity on the cash basis of accounting. The preliminary budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues 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 official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2015 and 2014.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31:

	<u>2015</u>	<u>2014</u>
<u>Special Revenue Funds</u>		
Highway	1,312,668.33	190,025.31
Recreation	112,136.42	

No remedial action is anticipated or required by the city regarding these excess expenditures.

CITY OF BOWBELLS  
Bowbells, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
<b>Major Governmental Funds</b>						
General	520,092.10	2,380,774.99	68,941.82	1,261,008.22	294,819.55	1,413,981.14
Highway	320,336.58	264,036.42	1,001,008.22		1,457,596.29	127,784.93
<b>Total Major Governmental Funds</b>	<b>840,428.68</b>	<b>2,644,811.41</b>	<b>1,069,950.04</b>	<b>1,261,008.22</b>	<b>1,752,415.84</b>	<b>1,541,766.07</b>
<b>Non-Major Governmental Funds</b>						
Social Security	18,598.51	11,734.85			11,442.56	18,890.80
Recreation	67,928.05	10,262.48	100,000.00		169,036.42	9,154.11
Library	7,134.41	3,840.30			1,482.95	9,491.76
Trailer Court	68,941.82			68,941.82		(0.00)
Airport	6,824.46	3,886.31			2,278.49	8,432.28
<b>Total Non-Major Governmental Funds</b>	<b>169,427.25</b>	<b>29,723.94</b>	<b>100,000.00</b>	<b>68,941.82</b>	<b>184,240.42</b>	<b>45,968.95</b>
<b>Total Governmental Funds</b>	<b>1,009,855.93</b>	<b>2,674,535.35</b>	<b>1,169,950.04</b>	<b>1,329,950.04</b>	<b>1,936,656.26</b>	<b>1,587,735.02</b>
<b>Major Enterprise Funds</b>						
Water	20,308.35	118,270.90	60,000.00		152,248.08	46,331.17
Sewer:						
Operating	70,838.57	41,549.15	100,000.00		172,147.98	40,239.74
CWSRF Lagoon		30,214.00			30,214.00	
<b>Total Major Enterprise Funds</b>	<b>91,146.92</b>	<b>190,034.05</b>	<b>160,000.00</b>		<b>354,610.06</b>	<b>86,570.91</b>
<b>Non-Major Enterprise Funds</b>						
Garbage	23,546.72	65,024.05			63,504.78	25,065.99
Recycling	1,306.02	669.13			137.76	1,837.39
<b>Total Non-Major Enterprise Funds</b>	<b>24,852.74</b>	<b>65,693.18</b>			<b>63,642.54</b>	<b>26,903.38</b>
<b>Total Enterprise Funds</b>	<b>115,999.66</b>	<b>255,727.23</b>	<b>160,000.00</b>		<b>418,252.60</b>	<b>113,474.29</b>
<b>Agency Fund</b>						
Park	3,734.09	3,909.26			3,734.09	3,909.26
<b>Total All Funds</b>	<b>1,129,589.68</b>	<b>2,934,171.84</b>	<b>1,329,950.04</b>	<b>1,329,950.04</b>	<b>2,358,642.95</b>	<b>1,705,118.57</b>

CITY OF BOWBELLS  
Bowbells, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2014

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
<b>Major Governmental Funds</b>						
General	445,282.90	365,812.09		104,000.00	187,002.89	520,092.10
Highway	287,840.49	323,521.40			291,025.31	320,336.58
<b>Total Major Governmental Funds</b>	<b>733,123.39</b>	<b>689,333.49</b>		<b>104,000.00</b>	<b>478,028.20</b>	<b>840,428.68</b>
<b>Non-Major Governmental Funds</b>						
Social Security	16,246.47	11,851.83			9,499.79	18,598.51
Recreation	47,000.17	21,931.00	4,000.00		5,003.12	67,928.05
Library	5,220.01	3,666.57			1,752.17	7,134.41
Trailer Court	153,849.27				84,907.45	68,941.82
Airport	4,714.46	4,938.66			2,828.66	6,824.46
<b>Total Non-Major Governmental Funds</b>	<b>227,030.38</b>	<b>42,388.06</b>	<b>4,000.00</b>		<b>103,991.19</b>	<b>169,427.25</b>
<b>Total Governmental Funds</b>	<b>960,153.77</b>	<b>731,721.55</b>	<b>4,000.00</b>	<b>104,000.00</b>	<b>582,019.39</b>	<b>1,009,855.93</b>
<b>Major Enterprise Funds</b>						
Water:						
Operating	65,243.49	127,684.45	100,000.00		272,619.59	20,308.35
DWSRF Watermain Project		107,250.00			107,250.00	
Sewer:						
Operating	55,559.46	318,652.44			303,373.33	70,838.57
CWSRF Lagoon		654,791.00			654,791.00	
<b>Total Major Enterprise Funds</b>	<b>120,802.95</b>	<b>1,208,377.89</b>	<b>100,000.00</b>		<b>1,338,033.92</b>	<b>91,146.92</b>
<b>Non-Major Enterprise Funds</b>						
Garbage	19,230.86	57,796.95			53,481.09	23,546.72
Recycling	407.79	1,189.08			290.85	1,306.02
<b>Total Non-Major Enterprise Funds</b>	<b>19,638.65</b>	<b>58,986.03</b>			<b>53,771.94</b>	<b>24,852.74</b>
<b>Total Enterprise Funds</b>	<b>140,441.60</b>	<b>1,267,363.92</b>	<b>100,000.00</b>		<b>1,391,805.86</b>	<b>115,999.66</b>
<b>Agency Fund</b>						
Park	3,515.59	3,734.09			3,515.59	3,734.09
<b>Total All Funds</b>	<b>1,104,110.96</b>	<b>2,002,819.56</b>	<b>104,000.00</b>	<b>104,000.00</b>	<b>1,977,340.84</b>	<b>1,129,589.68</b>

CITY OF BOWBELLS  
Bowbells, North Dakota

Schedule of Expenditures of Federal Awards  
For the Years Ended December 31, 2015 and 2014

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Expenditures	
			2015	2014
<u>Environmental Protection Agency</u>				
Passed Through the ND Public Finance Authority:				
Capitalization Grants for Clean Water State Revolving Fund	66.458	380975-01	30,214.00	654,791.00
Capitalization Grants for Drinking Water State Revolving Fund	66.468	0700114-01		107,250.00
Total Expenditures of Federal Awards			30,214.00	762,041.00

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

# Rath & Mehler

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA  
Ken Mehler, CPA

425 North Fifth Street  
Bismarck, ND 58501

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Bowbells  
Bowbells, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bowbells, Bowbells, 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 the city's basic financial statements, and have issued our report thereon dated May 27, 2016.

### Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city'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 audits, 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's Response to Findings

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits 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 city's internal control or on compliance. This is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 27, 2016

# Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

Phone: (701) 258-4560

Jayson Rath, CPA

Ken Mehrer, CPA

425 North Fifth Street  
Bismarck, ND 58501

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Bowbells  
Bowbells, North Dakota

### Report on Compliance for Each Major Federal Program

We have audited the City of Bowbells's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the city's major federal programs for the years ended December 31, 2015 and 2014. The city's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the city's major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audits provide a reasonable basis for our opinion on compliance for each major federal program. However, our audits do not provide a legal determination of the city's compliance.

### Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2015 and 2014.

## Report on Internal Control Over Compliance

Management of the City of Bowbells is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the city's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

May 27, 2016

CITY OF BOWBELLS  
Bowbells, North Dakota

Schedule of Findings and Responses  
For the Years Ended December 31, 2015 and 2014

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

\* Material weakness(es) identified?             Yes        X   No

\* Significant deficiency(ies) identified?        X   Yes             None Reported

Noncompliance Material to financial statements noted?             Yes        X   No

Federal Awards

Internal control over major program(s):

\* Material weakness(es) identified?             Yes        X   No

\* Significant deficiency(ies) identified?             Yes        X   None Reported

Type of auditor's report issued on compliance for major program(s):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

       Yes        X   No

Identification of major program(s):

CFDA Number

66.458

Name of Federal Program

Capitalization Grants for Clean Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

       Yes        X   No

**SECTION II - FINANCIAL STATEMENT FINDINGS:**

Significant Deficiencies

1. Segregation of Duties

*Condition:* The city has one person 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 assets of the city.

*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's financial condition.

*Recommendation:* Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.

2. Financial Statement Preparation

*Condition:* The city's financial statements as of December 31, 2015 and 2014 are prepared by the city's external auditors.

*Criteria:* A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

*Recommendation:* We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the city to prepare its own financial statements.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.