

**CITY OF CANDO
CANDO, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
BASIC FINANCIAL STATEMENTS	
December 31, 2016	
Governmental Funds	
Statement of Net Position - Modified Cash Basis	4
Statement of Activities - Modified Cash Basis	5
Fund Financial Statements	
Governmental Funds	
Balance Sheet - Modified Cash Basis	6
Reconciliation of the Balance Sheet to the Statement of Net Position - Modified Cash Basis	7
Statement of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities - Modified Cash Basis	9
Proprietary Fund	
Statement of Net Position - Modified Cash Basis	10
Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis	11
Statement of Cash Flows - Modified Cash Basis	12
December 31, 2015	
Governmental Funds	
Statement of Net Position - Modified Cash Basis	13
Statement of Activities - Modified Cash Basis	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet - Modified Cash Basis	15
Reconciliation of the Balance Sheet to the Statement of Net Position - Modified Cash Basis	16

Statement of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to Statement of Activities - Modified Cash Basis	18
Proprietary Fund	
Statement of Net Position - Modified Cash Basis	19
Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis	20
Statement of Cash Flows - Modified Cash Basis	21
Notes to the Financial Statements	22
SUPPLEMENTARY INFORMATION	
December 31, 2016	
Budgetary Comparison Schedule - Modified Cash Basis	
General Fund	38
Highway Distribution Fund	39
City Sales Tax Fund	40
December 31, 2015	
Budgetary Comparison Schedule - Modified Cash Basis	
General Fund	41
Highway Distribution Fund	42
City Sales Tax Fund	43
Notes to the Budgetary Comparison Schedules	44
Combining Financial Statements	
Balance Sheet - Non-Major Special Revenue Funds - Modified Cash Basis - December 31, 2016	46
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Special Revenue Funds - Modified Cash Basis - December 31, 2016	47
Balance Sheet - Non-Major Special Revenue Funds - Modified Cash Basis - December 31, 2015	48
Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Special Revenue Funds - Modified Cash Basis - December 31, 2015	49

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS** **50**

Schedule of Findings and Responses **52**



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Mayor and Council Members of
the City Council
Cando, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Cando, North Dakota, as of and for the years ended December 31, 2016 and 2015, 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 error or fraud.

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cando, North Dakota, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows - modified cash basis, where applicable, thereof for the years then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements of the City of Cando, North Dakota, are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to 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 of Cando, North Dakota's basic financial statements. The budgetary comparison schedules and the combining non major special revenue fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules and the combining non major special revenue fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 October 13, 2017, on our consideration of the City of Cando, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Cando, North Dakota's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

October 13, 2017

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	Municipal Airport Authority
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,139,474	\$ 526,158	\$ 1,665,632	\$ 33,430
Total Current Assets	1,139,474	526,158	1,665,632	33,430
Capital Assets				
Non-Depreciable Assets	19,800	-	19,800	1,141,204
Capital Assets	3,366,842	3,606,745	6,973,587	417,249
Less Accumulated Depreciation	(2,516,180)	(1,415,994)	(3,932,174)	(156,719)
Net Capital Assets	<u>870,462</u>	<u>2,190,751</u>	<u>3,061,213</u>	<u>1,401,734</u>
Total Assets	<u>2,009,936</u>	<u>2,716,909</u>	<u>4,726,845</u>	<u>1,435,164</u>
Liabilities				
Long-Term Liabilities				
Current Portion				
Water Plant Debt Retirement	-	100,000	100,000	-
Non-Current Portion				
Water Plant Debt Retirement	-	1,639,251	1,639,251	-
Total Long-Term Liabilities	<u>-</u>	<u>1,739,251</u>	<u>1,739,251</u>	<u>-</u>
Total Liabilities	-	1,739,251	1,739,251	-
Net Position				
Net Investment in Capital Assets	870,462	451,500	1,321,962	1,401,734
Restricted				
Debt Service	132,579	-	132,579	-
Other	656,680	-	656,680	-
Unrestricted (Deficit)	<u>350,215</u>	<u>526,158</u>	<u>876,373</u>	<u>33,430</u>
Total Net Position	<u>\$ 2,009,936</u>	<u>\$ 977,658</u>	<u>\$ 2,987,594</u>	<u>\$ 1,435,164</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, fines and Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Airport Authority
Governmental Activities								
Current								
General Government	\$ 323,604	\$ 5,820	\$ -	\$ -	\$ (317,784)	\$ -	\$ (317,784)	\$ -
Public Safety	158,540	98	-	-	(158,442)	-	(158,442)	-
Public Works	136,907	-	-	-	(136,907)	-	(136,907)	-
Total Governmental Activities	<u>619,051</u>	<u>5,918</u>	<u>-</u>	<u>-</u>	<u>(613,133)</u>	<u>-</u>	<u>(613,133)</u>	<u>-</u>
Business-Type Activities								
Water	516,744	517,446	-	-	-	702	702	-
Sewer	40,895	75,397	-	-	-	34,502	34,502	-
Garbage	243,813	234,774	-	-	-	(9,039)	(9,039)	-
Audi Muni Theater	49,255	21,217	-	-	-	(28,038)	(28,038)	-
Total Business-Type Activities	<u>850,707</u>	<u>848,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,873)</u>	<u>(1,873)</u>	<u>-</u>
Total Primary Government	<u>1,469,758</u>	<u>854,752</u>	<u>-</u>	<u>-</u>	<u>(613,133)</u>	<u>(1,873)</u>	<u>(615,006)</u>	<u>-</u>
Component Units								
Airport Authority	<u>\$ 16,317</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 166,287</u>	-	-	-	149,970
General Revenues								
Taxes					390,843	-	390,843	10,704
Intergovernmental					184,468	-	184,468	10,945
Interest					1,739	545	2,284	2
Miscellaneous Revenue					46,050	13,682	59,732	8,510
Transfers					(21,000)	21,000	-	-
Total General Receipts and Transfers					<u>602,100</u>	<u>35,227</u>	<u>637,327</u>	<u>30,161</u>
Changes in Net Position					(11,033)	33,354	22,321	180,131
Net Position, January 1					<u>2,020,969</u>	<u>944,304</u>	<u>2,965,273</u>	<u>1,255,033</u>
Net Position, December 31					<u>\$ 2,009,936</u>	<u>\$ 977,658</u>	<u>\$ 2,987,594</u>	<u>\$ 1,435,164</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2016

	General Fund	Highway Distribution Fund	City Sales Tax	Other Governmental Funds	Total Governmental
Assets					
Cash & Cash Equivalents	\$ 354,265	\$ 179,987	\$ 408,653	\$ 196,569	\$ 1,139,474
Total Assets	<u>\$ 354,265</u>	<u>\$ 179,987</u>	<u>\$ 408,653</u>	<u>\$ 196,569</u>	<u>\$ 1,139,474</u>
Liabilities and Fund Balances					
Fund Balances					
Restricted for Debt Service	\$ -	\$ -	\$ -	\$ 132,579	\$ 132,579
Restricted-other	-	179,987	408,653	68,040	656,680
Unassigned	<u>354,265</u>	<u>-</u>	<u>-</u>	<u>(4,050)</u>	<u>350,215</u>
Total Fund Balance	<u>354,265</u>	<u>179,987</u>	<u>408,653</u>	<u>196,569</u>	<u>1,139,474</u>
Total Liabilities and Fund Balance	<u>\$ 354,265</u>	<u>\$ 179,987</u>	<u>\$ 408,653</u>	<u>\$ 196,569</u>	<u>\$ 1,139,474</u>

See Notes to the Financial Statements

CITY OF CANDU, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds		\$ 1,139,474
<p style="margin-left: 40px;">Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds</p>		
Cost of Capital Assets	\$ 3,386,642	
Accumulated Depreciation	<u>(2,516,180)</u>	
Net		<u>870,462</u>
Total Net Position - Governmental Activities		<u><u>\$ 2,009,936</u></u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Highway Distribution Fund	City Sales Tax	Other Governmental Funds	Total Governmental
Revenues					
Taxes	\$ 161,006	\$ -	\$ 145,063	\$ 84,774	\$ 390,843
Licenses and Permits	5,820	-	-	-	5,820
Intergovernmental	89,873	93,201	-	1,394	184,468
Fine and Forfeits	98	-	-	-	98
Interest	1,739	-	-	-	1,739
Miscellaneous Revenue	38,504	-	-	7,546	46,050
Total Revenues	<u>297,040</u>	<u>93,201</u>	<u>145,063</u>	<u>93,714</u>	<u>629,018</u>
Expenditures					
Current					
General Government	138,068	-	9,426	148,218	295,712
Public Safety	141,456	-	-	9,591	151,047
Public Works	5,571	71,827	-	11,039	88,437
Capital Outlay	10,000	10,500	15,695	-	36,195
Total Expenditures	<u>295,095</u>	<u>82,327</u>	<u>25,121</u>	<u>168,848</u>	<u>571,391</u>
Excess Revenues Over (Under)					
Expenditures	1,945	10,874	119,942	(75,134)	57,627
Other Financing Sources (Uses)					
Operating Transfers (Out)	-	-	(21,000)	-	(21,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(21,000)</u>	<u>-</u>	<u>(21,000)</u>
Net Change in Fund Balance	1,945	10,874	98,942	(75,134)	36,627
Fund Balance - January 1	<u>352,320</u>	<u>169,113</u>	<u>309,711</u>	<u>271,703</u>	<u>1,102,847</u>
Fund Balance - December 31	<u>\$ 354,265</u>	<u>\$ 179,987</u>	<u>\$ 408,653</u>	<u>\$ 196,569</u>	<u>\$ 1,139,474</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES –
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Total Net Change in Fund Balances - Governmental Funds \$ 36,627

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$ 36,195	
Depreciation Expense	<u>(83,855)</u>	
Excess of Depreciation Expense over Capital Outlay		<u>(47,660)</u>
Net Change in Net Position of Governmental Activities		<u>\$ (11,033)</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2016

	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	Total
Assets					
Current					
Cash & Cash Equivalents	\$ 228,963	\$ 122,299	\$ 174,896	\$ -	\$ 526,158
Non-Current					
Capital Assets, Net of Depreciation	<u>1,925,351</u>	<u>190,573</u>	<u>39,767</u>	<u>35,060</u>	<u>2,190,751</u>
Total Assets	<u>\$ 2,154,314</u>	<u>\$ 312,872</u>	<u>\$ 214,663</u>	<u>\$ 35,060</u>	<u>\$ 2,716,909</u>
Liabilities					
Current Liabilities					
Current Portion of Long-Term Debt	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Long-Term Liabilities					
Bonds Payable	<u>1,639,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,639,251</u>
Total Liabilities	1,739,251	-	-	-	1,739,251
Net Position					
Net Investment in Capital Assets	186,100	190,573	39,767	35,060	451,500
Unrestricted	<u>228,963</u>	<u>122,299</u>	<u>174,896</u>	<u>-</u>	<u>526,158</u>
Total Net Position	<u>415,063</u>	<u>312,872</u>	<u>214,663</u>	<u>35,060</u>	<u>977,658</u>
Total Liabilities and Net Position	<u>\$ 2,154,314</u>	<u>\$ 312,872</u>	<u>\$ 214,663</u>	<u>\$ 35,060</u>	<u>\$ 2,716,909</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	Total
Operating Revenues					
Charges for Services	\$ 517,446	\$ 75,397	\$ 234,774	\$ 21,217	\$ 848,834
Operating Expenses					
Garbage Operation	-	-	234,992	-	234,992
Sewer Operation	-	13,043	-	-	13,043
Water System	151,748	-	-	-	151,748
Movie Operation	-	-	-	28,381	28,381
Office Expense	9,546	-	-	-	9,546
Insurance Expense	2,938	106	-	-	3,044
Payroll Expense	192,473	-	1,822	10,887	205,182
Utilities	40,434	4,784	-	842	46,060
Miscellaneous	8,143	-	-	2,770	10,913
Depreciation	53,329	22,962	6,999	6,375	89,665
Total Operating Expenses	<u>458,611</u>	<u>40,895</u>	<u>243,813</u>	<u>49,255</u>	<u>792,574</u>
Operating Income (Loss)	<u>58,835</u>	<u>34,502</u>	<u>(9,039)</u>	<u>(28,038)</u>	<u>56,260</u>
Non-Operating (Revenues) Expenses					
Interest	(545)	-	-	-	(545)
Miscellaneous Revenue	(12,710)	-	-	(972)	(13,682)
Debt Service					
Interest on Debt Service	57,708	-	-	-	57,708
Service Charges on Debt Service	425	-	-	-	425
Total Non-Operating (Revenues) Expenses	<u>44,878</u>	<u>-</u>	<u>-</u>	<u>(972)</u>	<u>43,906</u>
Income (Loss) Before Transfers	13,957	34,502	(9,039)	(27,066)	12,354
Transfers In	41,000	-	-	-	41,000
Transfers (Out)	<u>-</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>(20,000)</u>
Net Transfers	<u>41,000</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
Net Income (Loss)	54,957	14,502	(9,039)	(27,066)	33,354
Net Position - January 1	<u>360,106</u>	<u>298,370</u>	<u>223,702</u>	<u>62,126</u>	<u>944,304</u>
Net Position - December 31	<u>\$ 415,063</u>	<u>\$ 312,872</u>	<u>\$ 214,663</u>	<u>\$ 35,060</u>	<u>\$ 977,658</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Garbage	Audi Muni Theater	Total
CASH FLOWS FROM (TO) OPERATING ACTIVITIES					
Receipts from Customers	\$ 517,446	\$ 75,397	\$ 234,774	\$ 21,217	\$ 848,834
Payments to Suppliers	(151,748)	(13,043)	(234,992)	(28,381)	(428,164)
Payroll Expenses	(192,473)	-	(1,822)	(10,887)	(205,182)
Miscellaneous Operating Expenses	(61,061)	(4,890)	-	(3,612)	(69,563)
Net Cash Provided (Used) by Operating Activities	<u>112,164</u>	<u>57,464</u>	<u>(2,040)</u>	<u>(21,663)</u>	<u>145,925</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES					
Miscellaneous Revenues (Expenses)	12,710	-	-	972	13,682
Operating Transfers In	41,000	-	-	-	41,000
Operating Transfers Out	-	(20,000)	-	-	(20,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>53,710</u>	<u>(20,000)</u>	<u>-</u>	<u>972</u>	<u>34,682</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal Paid on Debt	(95,000)	(15,000)	-	-	(110,000)
Interest Paid on Debt	(55,991)	-	-	-	(55,991)
Service Charges Paid on Debt	(425)	-	-	-	(425)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(151,416)</u>	<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(166,416)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES					
Interest Income	545	-	-	-	545
Net Cash Provided (Used) by Investing Activities	<u>545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>545</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,003	22,464	(2,040)	(20,691)	14,736
CASH AND CASH EQUIVALENTS JANUARY 1, 2016	<u>213,960</u>	<u>99,835</u>	<u>176,936</u>	<u>20,691</u>	<u>511,422</u>
CASH AND CASH EQUIVALENTS DECEMBER 31, 2016	<u>\$ 228,963</u>	<u>\$ 122,299</u>	<u>\$ 174,896</u>	<u>\$ -</u>	<u>\$ 526,158</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income	\$ 58,835	\$ 34,502	\$ (9,039)	\$ (28,038)	\$ 56,260
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	53,329	22,962	6,999	6,375	89,665
Net Cash Provided (Used) by Operating Activities	<u>\$ 112,164</u>	<u>\$ 57,464</u>	<u>\$ (2,040)</u>	<u>\$ (21,663)</u>	<u>\$ 145,925</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
AS OF DECEMBER 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	Municipal Airport Authority
Assets				
Current Assets				
Cash and Cash Equivalents	\$ 1,102,847	\$ 511,422	\$ 1,614,269	\$ 42,559
Total Current Assets	1,102,847	511,422	1,614,269	42,559
Capital Assets				
Non-Depreciable Assets	19,800	-	19,800	945,590
Capital Assets	3,330,647	3,696,410	7,027,057	417,249
Less Accumulated Depreciation	(2,432,325)	(1,415,994)	(3,848,319)	(150,365)
Net Capital Assets	918,122	2,280,416	3,198,538	1,212,474
Total Assets	<u>2,020,969</u>	<u>2,791,838</u>	<u>4,812,807</u>	<u>1,255,033</u>
Liabilities				
Long-Term Liabilities				
Current Portion				
State Revolving Fund	-	15,000	15,000	-
Water Plant Debt Retirement	-	95,000	95,000	-
Non-Current Portion				
Water Plant Debt Retirement	-	1,737,534	1,737,534	-
Total Long-Term Liabilities	-	1,847,534	1,847,534	-
Total Liabilities	-	1,847,534	1,847,534	-
Net Position				
Net Investment in Capital Assets	918,122	432,882	1,351,004	1,212,474
Restricted				
Debt Service	198,885	-	198,885	-
Other	553,261	-	553,261	-
Unrestricted (Deficit)	350,701	511,422	862,123	42,559
Total Net Position	<u>\$ 2,020,969</u>	<u>\$ 944,304</u>	<u>\$ 2,965,273</u>	<u>\$ 1,255,033</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Airport Authority
Governmental Activities								
Current								
General Government	\$ 295,631	\$ 10,995	\$ -	\$ -	\$ (284,636)	\$ -	\$ (284,636)	\$ -
Public Safety	223,353	3,780	-	-	(219,573)	-	(219,573)	-
Public Works	200,073	-	-	-	(200,073)	-	(200,073)	-
Total Governmental Activities	<u>719,057</u>	<u>14,775</u>	<u>-</u>	<u>-</u>	<u>(704,282)</u>	<u>-</u>	<u>(704,282)</u>	<u>-</u>
Business-Type Activities								
Water	535,734	503,223	-	-	-	(32,511)	(32,511)	-
Sewer	55,351	75,072	-	-	-	19,721	19,721	-
Garbage	204,671	248,674	-	-	-	44,003	44,003	-
Audi Muni Theater	49,224	41,960	-	-	-	(7,264)	(7,264)	-
Total Business-Type Activities	<u>844,980</u>	<u>868,929</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,949</u>	<u>23,949</u>	<u>-</u>
Total Primary Government	<u>1,564,037</u>	<u>883,704</u>	<u>-</u>	<u>-</u>	<u>(704,282)</u>	<u>23,949</u>	<u>(680,333)</u>	<u>-</u>
Component Units								
Airport Authority	<u>\$ 70,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,781</u>
General Revenues								
Taxes					388,925	-	388,925	41,445
Intergovernmental					245,098	-	245,098	45,756
Interest					1,744	519	2,263	-
Miscellaneous Revenue					30,926	1,790	32,716	5,635
Transfers					(30,089)	30,089	-	-
Total General Receipts and Transfers					<u>636,604</u>	<u>32,398</u>	<u>669,002</u>	<u>92,836</u>
Changes in Net Position					(67,678)	56,347	(11,331)	484,617
Net Position, January 1					<u>2,088,647</u>	<u>887,957</u>	<u>2,976,604</u>	<u>770,416</u>
Net Position, December 31					<u>\$ 2,020,969</u>	<u>\$ 944,304</u>	<u>\$ 2,965,273</u>	<u>\$ 1,255,033</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2015

	General Fund	Highway Distribution Fund	City Sales Tax	Other Governmental Funds	Total Governmental
Assets					
Cash & Cash Equivalents	\$ 352,320	\$ 169,113	\$ 309,711	\$ 271,703	\$ 1,102,847
Total Assets	<u>\$ 352,320</u>	<u>\$ 169,113</u>	<u>\$ 309,711</u>	<u>\$ 271,703</u>	<u>\$ 1,102,847</u>
Liabilities and Fund Balances					
Fund Balances					
Restricted for Debt Service	\$ -	\$ -	\$ -	\$ 198,885	\$ 198,885
Restricted-other	-	169,113	309,711	74,437	553,261
Unassigned	<u>352,320</u>	<u>-</u>	<u>-</u>	<u>(1,619)</u>	<u>350,701</u>
Total Fund Balance	<u>352,320</u>	<u>169,113</u>	<u>309,711</u>	<u>271,703</u>	<u>1,102,847</u>
Total Liabilities and Fund Balance	<u>\$ 352,320</u>	<u>\$ 169,113</u>	<u>\$ 309,711</u>	<u>\$ 271,703</u>	<u>\$ 1,102,847</u>

See Notes to the Financial Statements

CITY OF CANDU, NORTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds		\$ 1,102,847
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds		
Cost of Capital Assets	\$ 3,350,447	
Accumulated Depreciation	<u>(2,432,325)</u>	
Net		<u>918,122</u>
Total Net Position - Governmental Activities		<u><u>\$ 2,020,969</u></u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Highway Distribution Fund	City Sales Tax	Other Governmental Funds	Total Governmental
Revenues					
Taxes	\$ 100,131	\$ -	\$ 141,976	\$ 146,818	\$ 388,925
Licenses and Permits	10,995	-	-	-	10,995
Intergovernmental	139,729	105,369	-	-	245,098
Fine and Forfeits	3,780	-	-	-	3,780
Interest	1,744	-	-	-	1,744
Miscellaneous Revenue	28,903	-	-	12,706	41,609
Total Revenues	<u>285,282</u>	<u>105,369</u>	<u>141,976</u>	<u>159,524</u>	<u>692,151</u>
Expenditures					
Current					
General Government	164,309	-	9,250	94,613	268,172
Public Safety	203,690	-	-	9,823	213,513
Public Works	4,763	129,135	-	10,078	143,976
Total Expenditures	<u>372,762</u>	<u>129,135</u>	<u>9,250</u>	<u>114,514</u>	<u>625,661</u>
Excess Revenues Over (Under)					
Expenditures	(87,480)	(23,766)	132,726	45,010	66,490
Other Financing Sources (Uses)					
Operating Transfers In	51,971	-	-	-	51,971
Operating Transfers (Out)	-	-	(30,089)	(51,971)	(82,060)
Total Other Financing Sources (Uses)	<u>51,971</u>	<u>-</u>	<u>(30,089)</u>	<u>(51,971)</u>	<u>(30,089)</u>
Net Change in Fund Balance	(35,509)	(23,766)	102,637	(6,961)	36,401
Fund Balance - January 1	<u>387,829</u>	<u>192,879</u>	<u>207,074</u>	<u>278,664</u>	<u>1,066,446</u>
Fund Balance - December 31	<u>\$ 352,320</u>	<u>\$ 169,113</u>	<u>\$ 309,711</u>	<u>\$ 271,703</u>	<u>\$ 1,102,847</u>

See Notes to the Financial Statements

CITY OF CANDU, NORTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES –
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

Total Net Change in Fund Balances - Governmental Funds \$ 36,401

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	\$	-	
Depreciation Expense		<u>(93,397)</u>	
Excess of Depreciation Expense over Capital Outlay			(93,397)

When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the loss on the sale is reported on the Statement of Net Position	<u>(10,682)</u>
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Net Change in Net Position of Governmental Activities	<u><u>\$ (67,678)</u></u>
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See Notes to the Financial Statements

CITY OF CANDU, NORTH DAKOTA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2015

	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	Total
Assets					
Current					
Cash & Cash Equivalents	\$ 213,960	\$ 99,835	\$ 176,936	\$ 20,691	\$ 511,422
Non-Current					
Capital Assets, Net of Depreciation	<u>1,978,680</u>	<u>213,535</u>	<u>46,766</u>	<u>41,435</u>	<u>2,280,416</u>
Total Assets	<u>\$ 2,192,640</u>	<u>\$ 313,370</u>	<u>\$ 223,702</u>	<u>\$ 62,126</u>	<u>\$ 2,791,838</u>
Liabilities					
Current Liabilities					
Current Portion of Long-Term Debt	\$ 95,000	\$ 15,000	\$ -	\$ -	\$ 110,000
Long-Term Liabilities					
Bonds Payable	<u>1,737,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,737,534</u>
Total Liabilities	1,832,534	15,000	-	-	1,847,534
Net Position					
Net Investment in Capital Assets	146,146	198,535	46,766	41,435	432,882
Unrestricted	<u>213,960</u>	<u>99,835</u>	<u>176,936</u>	<u>20,691</u>	<u>511,422</u>
Total Net Position	<u>360,106</u>	<u>298,370</u>	<u>223,702</u>	<u>62,126</u>	<u>944,304</u>
Total Liabilities and Net Position	<u>\$ 2,192,640</u>	<u>\$ 313,370</u>	<u>\$ 223,702</u>	<u>\$ 62,126</u>	<u>\$ 2,791,838</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water Fund	Sewer Fund	Garbage Fund	Audi Muni Theater	Total
Operating Revenues					
Charges for Services	\$ 503,223	\$ 75,072	\$ 248,674	\$ 41,960	\$ 868,929
Operating Expenses					
Garbage Operation	-	-	197,002	-	197,002
Sewer Operation	-	24,569	-	-	24,569
Water System	172,709	-	-	-	172,709
Movie Operation	-	-	-	18,980	18,980
Office Expense	9,176	-	30	-	9,206
Insurance Expense	2,935	102	-	-	3,037
Payroll Expense	189,495	-	-	13,962	203,457
Utilities	41,659	4,356	-	4,671	50,686
Miscellaneous	7,447	2,499	2,499	5,236	17,681
Depreciation	53,180	22,962	5,140	6,375	87,657
Total Operating Expenses	<u>476,601</u>	<u>54,488</u>	<u>204,671</u>	<u>49,224</u>	<u>784,984</u>
Operating Income (Loss)	<u>26,622</u>	<u>20,584</u>	<u>44,003</u>	<u>(7,264)</u>	<u>83,945</u>
Non-Operating (Revenues) Expenses					
Interest	(519)	-	-	-	(519)
Miscellaneous Revenue	449	(225)	-	(2,014)	(1,790)
Debt Service					
Interest on Debt Service	58,708	750	-	-	59,458
Service Charges on Debt Service	425	113	-	-	538
Total Non-Operating (Revenues) Expenses	<u>59,063</u>	<u>638</u>	<u>-</u>	<u>(2,014)</u>	<u>57,687</u>
Income (Loss) Before Transfers	(32,441)	19,946	44,003	(5,250)	26,258
Transfers In	<u>30,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,089</u>
Net Income (Loss)	(2,352)	19,946	44,003	(5,250)	56,347
Net Position - January 1	<u>362,458</u>	<u>278,424</u>	<u>179,699</u>	<u>67,376</u>	<u>887,957</u>
Net Position - December 31	<u>\$ 360,106</u>	<u>\$ 298,370</u>	<u>\$ 223,702</u>	<u>\$ 62,126</u>	<u>\$ 944,304</u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Garbage	Audi Muni Theater	Total
CASH FLOWS FROM (TO) OPERATING ACTIVITIES					
Receipts from Customers	\$ 503,223	\$ 75,072	\$ 248,674	\$ 41,960	\$ 868,929
Payments to Suppliers	(172,709)	(24,569)	(197,002)	(18,980)	(413,260)
Payroll Expenses	(189,495)	-	-	(13,962)	(203,457)
Miscellaneous Operating Expenses	(61,217)	(6,957)	(2,529)	(9,907)	(80,610)
Net Cash Provided (Used) by Operating Activities	<u>79,802</u>	<u>43,546</u>	<u>49,143</u>	<u>(889)</u>	<u>171,602</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES					
Miscellaneous Revenues (Expenses)	(449)	225	-	2,014	1,790
Operating Transfers In	<u>30,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,089</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>29,640</u>	<u>225</u>	<u>-</u>	<u>2,014</u>	<u>31,879</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of Capital Assets	(5,579)	-	(24,783)	-	(30,362)
Principal Paid on Debt	(100,000)	(15,000)	-	-	(115,000)
Interest Paid on Debt	(56,990)	(750)	-	-	(57,740)
Service Charges Paid on Debt	(425)	(113)	-	-	(538)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(162,994)</u>	<u>(15,863)</u>	<u>(24,783)</u>	<u>-</u>	<u>(203,640)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES					
Interest Income	<u>519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>519</u>
Net Cash Provided (Used) by Investing Activities	<u>519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>519</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,033)	27,908	24,360	1,125	360
CASH AND CASH EQUIVALENTS JANUARY 1, 2015	<u>266,993</u>	<u>71,927</u>	<u>152,576</u>	<u>19,566</u>	<u>511,062</u>
CASH AND CASH EQUIVALENTS DECEMBER 31, 2015	<u><u>\$ 213,960</u></u>	<u><u>\$ 99,835</u></u>	<u><u>\$ 176,936</u></u>	<u><u>\$ 20,691</u></u>	<u><u>\$ 511,422</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income	\$ 26,622	\$ 20,584	\$ 44,003	\$ (7,264)	\$ 83,945
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and Amortization	<u>53,180</u>	<u>22,962</u>	<u>5,140</u>	<u>6,375</u>	<u>87,657</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 79,802</u></u>	<u><u>\$ 43,546</u></u>	<u><u>\$ 49,143</u></u>	<u><u>\$ (889)</u></u>	<u><u>\$ 171,602</u></u>

See Notes to the Financial Statements

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The accompanying financial statements present the activities of the City of Cando. The City has considered all potential component units for which the City is financially accountable, and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. The criteria include, but are not limited to, appointing a voting majority of an organization's governing body, and 1) the ability of the City of Cando to impose its will on that organization or 2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City of Cando.

The City has determined that the Cando Municipal Airport Authority meets the above criteria and, therefore, has been included as a discretely presented component unit in the City's financial statements.

The component unit column in the government wide financial statements includes the financial data of the City's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City of Cando.

Cando Municipal Airport Authority

The City's governing board has the authority to disapprove, amend, or approve the Airport Authority's budget. The Airport Authority does not have a separate audit report issued and uses only a general fund to account for all financial transactions. The financial activity of the Airport Authority is reported in the accompanying financial statements.

Basis of Presentation

Government-Wide Financial Statements

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

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary and fiduciary.

The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds.

All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Governmental Funds

The City reports the following major governmental funds:

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Highway Distribution Fund

This fund accounts for highway tax receipts and repairs made to streets.

City Sales Tax Fund

This fund accounts for receipts and disbursements of City sales tax dollars.

Proprietary Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector. The City includes all of the enterprise funds as major, which consist of the Water, Sewer, Garbage, and Audi Municipal Theater Funds.

Fiduciary Funds

The reporting focus of fiduciary funds is on net position. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City of Cando had no Fiduciary Fund types.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Measurement Focus and Basis of Accounting

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

Measurement Focus

The government-wide statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

Governmental fund financial statements are reported using, 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” measure focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or non financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

If both restricted and unrestricted resources are available to use for the same purpose, it is the City’s policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable or 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.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Cash and Cash Equivalents

Cash balances from all funds are pooled and invested to the extent available in authorized investments authorized by North Dakota statutes. Earnings from such investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

Cash and cash equivalents on the statement of cash flows consists of highly liquid investments with an original maturity of three months or less.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (i.e. roads, bridges, sidewalks, storm sewers and similar improvements), are reported in the government-wide statements in the applicable governmental or business-type activities column and in the proprietary fund statements. Capital assets that have been purchased or constructed have been valued at historical cost or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation.

Depreciation on exhaustible capital assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of useful lives by type of asset is as follows:

Building and infrastructure	50 years
Improvements	25 years
Vehicles and equipment	10 years

Compensated Absences

Employees earn vacation leave at a rate of five vacation days after one year of employment, ten days after two years of employment, and ten days plus one additional day for each subsequent year of employment. No more than 240 hours may be accrued and any vacation time in excess will be forfeited. All outstanding vacation is payable upon termination.

Sick leave is earned at a rate of eight hours per month of employment with a maximum accrual of 1,040 hours. However, liabilities are not recorded in any fund as there is no provision for vesting of unused sick leave.

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements.

In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Uses" and "Expenditures", respectively, in the fund financial statements.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Net Position

In the government-wide financial statements, equity is classified as “net position” and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted – All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balances

The difference between assets and liabilities is “Net Position” on the government wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority which is the Council through a resolution.

Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

The first priority is to utilizing the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

December 31, 2016

Fund Balance						Other	Total
	General	Highway Distribution	City Sales Tax	Debt Service	Governmental Funds		
Restricted							
Debt Service	\$ -	\$ -	\$ -	\$ 132,579	\$ -	\$ -	\$ 132,579
ADA Projects	-	-	8,173	-	-	-	8,173
Highway and Roads	-	179,987	-	-	-	-	179,987
Infrastructure	-	-	400,480	-	-	-	400,480
Fire Department	-	-	-	-	1,359	-	1,359
Emergency	-	-	-	-	12,456	-	12,456
Special Assessments	-	-	-	-	15,294	-	15,294
Community Development	-	-	-	-	5,477	-	5,477
Trust and Agency	-	-	-	-	19,685	-	19,685
Cemetery	-	-	-	-	2,618	-	2,618
Job Development	-	-	-	-	741	-	741
Airport	-	-	-	-	10,410	-	10,410
Total Restricted	-	179,987	408,653	132,579	68,040	-	789,259
Unassigned	354,265	-	-	-	(4,050)	-	350,215
Total Fund Balance	<u>\$ 354,265</u>	<u>\$ 179,987</u>	<u>\$ 408,653</u>	<u>\$ 132,579</u>	<u>\$ 63,990</u>	<u>\$ -</u>	<u>\$ 1,139,474</u>

December 31, 2015

Fund Balance						Other	Total
	General	Highway Distribution	City Sales Tax	Debt Service	Governmental Funds		
Restricted							
Debt Service	\$ -	\$ -	\$ -	\$ 198,885	\$ -	\$ -	\$ 198,885
ADA Projects	-	-	6,194	-	-	-	6,194
Highway and Roads	-	169,113	-	-	-	-	169,113
Infrastructure	-	-	303,517	-	-	-	303,517
Fire Department	-	-	-	-	864	-	864
Emergency	-	-	-	-	12,438	-	12,438
Special Assessments	-	-	-	-	15,184	-	15,184
Community Development	-	-	-	-	650	-	650
Trust and Agency	-	-	-	-	28,324	-	28,324
Cemetery	-	-	-	-	7,524	-	7,524
Job Development	-	-	-	-	745	-	745
Airport	-	-	-	-	8,708	-	8,708
Total Restricted	-	169,113	309,711	198,885	74,437	-	752,146
Unassigned	352,320	-	-	-	(1,619)	-	350,701
Total Fund Balance	<u>\$ 352,320</u>	<u>\$ 169,113</u>	<u>\$ 309,711</u>	<u>\$ 198,885</u>	<u>\$ 72,818</u>	<u>\$ -</u>	<u>\$ 1,102,847</u>

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Estimates

The preparation of financial statements in conformity with other comprehensive basis of accounting used by the City, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues

The City has the following program revenues; fees, fines and charges for services, operating and capital grants or contributions that are specific to a program. All other governmental revenues and general tax levies are classified as general revenues.

Operating revenues and expenses in the enterprise funds consist of user fees, sales, charges for services and the related income and expenses associated with providing those sales and services. Non-operating revenues and expenses consist of contributions, grants, rents, interest and other miscellaneous items not associated with the services the fund is providing.

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 attach as an enforceable lien on January 1st of the year collectible. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if taxes are not paid.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash pool of which each fund's portion of the pool is displayed on their respective balance sheet as cash and cash equivalents. In addition, non-pooled investments are separately held and reflected in their respective funds balance sheet as investments. The City's investments consist of money market accounts.

In accordance with North Dakota laws, the City maintains deposits at depositories authorized by the city council. The depositories are members of the Federal Reserve System.

State statutes require that market value of collateral pledged to secure deposits not covered by insurance must equal 110% of the deposits. The City's cash and investments are held by the designated depository. At December 31, 2016 and 2015, the City had adequate FDIC insurance or pledged collateral to cover all deposits.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

Credit Risk

State statutes authorize local governments to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- b) 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.
- c) Certificates of Deposit fully insured by the Federal Deposit Insurance Corporation or the state.
- d) Obligations of the state.

Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer.

NOTE 3 - CAPITAL ASSETS

Changes in capital assets for governmental activities for the years ended December 31, 2016 and 2015 are as follows:

December 31, 2016 Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not Depreciated				
Land	\$ 19,800	\$ -	\$ -	\$ 19,800
Capital Assets Depreciated				
Buildings	1,512,123	-	-	1,512,123
Equipment	306,727	10,500	-	317,227
Improvements	1,211,757	25,695	-	1,237,452
Vehicles	300,040	-	-	300,040
Total	<u>3,330,647</u>	<u>36,195</u>	<u>-</u>	<u>3,366,842</u>
Accumulated Depreciation				
Buildings	1,260,213	28,328	-	1,288,541
Equipment	298,206	1,205	-	299,411
Improvements	610,086	48,860	-	658,946
Vehicles	263,820	5,462	-	269,282
Total	<u>2,432,325</u>	<u>83,855</u>	<u>-</u>	<u>2,516,180</u>
Net Capital Assets - Governmental Activities	<u>\$ 918,122</u>	<u>\$ (47,660)</u>	<u>\$ -</u>	<u>\$ 870,462</u>

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

December 31, 2015 Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not Depreciated				
Land	\$ 19,800	\$ -	\$ -	\$ 19,800
Capital Assets Depreciated				
Buildings	1,512,123	-	-	1,512,123
Equipment	306,727	-	-	306,727
Improvements	1,211,757	-	-	1,211,757
Vehicles	333,734	-	33,694	300,040
Total	<u>3,364,341</u>	<u>-</u>	<u>33,694</u>	<u>3,330,647</u>
Accumulated Depreciation				
Buildings	1,231,884	28,329	-	1,260,213
Equipment	288,984	9,222	-	298,206
Improvements	561,616	48,470	-	610,086
Vehicles	279,456	7,376	23,012	263,820
Total	<u>2,361,940</u>	<u>93,397</u>	<u>23,012</u>	<u>2,432,325</u>
Net Capital Assets - Governmental Activities	<u>\$ 1,022,201</u>	<u>\$ (93,397)</u>	<u>\$ 10,682</u>	<u>\$ 918,122</u>

Changes in capital assets for Business-Type Activities for the years ended December 31, 2016 and 2015 are as follows:

December 31, 2016 Business-Type Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Depreciated				
Equipment	\$ 129,037	\$ -	\$ -	\$ 129,037
Improvements	768,573	-	-	768,573
Infrastructure	2,798,800	-	-	2,798,800
Total	<u>3,696,410</u>	<u>-</u>	<u>-</u>	<u>3,696,410</u>
Accumulated Depreciation				
Equipment	85,267	6,959	-	92,226
Improvements	463,767	32,230	-	495,997
Infrastructure	866,960	50,476	-	917,436
Total	<u>1,415,994</u>	<u>89,665</u>	<u>-</u>	<u>1,505,659</u>
Net Capital Assets - Governmental Activities	<u>\$ 2,280,416</u>	<u>\$ (89,665)</u>	<u>\$ -</u>	<u>\$ 2,190,751</u>

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

December 31, 2015	Beginning			Ending
Business-Type Activities	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
Capital Assets Depreciated				
Equipment	\$ 129,037	\$ -	\$ -	\$ 129,037
Improvements	738,211	30,362	-	768,573
Infrastructure	2,798,800	-	-	2,798,800
Total	<u>3,666,048</u>	<u>30,362</u>	<u>-</u>	<u>3,696,410</u>
Accumulated Depreciation				
Equipment	78,308	6,959	-	85,267
Improvements	433,545	30,222	-	463,767
Infrastructure	816,484	50,476	-	866,960
Total	<u>1,328,337</u>	<u>87,657</u>	<u>-</u>	<u>1,415,994</u>
Net Capital Assets -				
Governmental Activities	<u>\$ 2,337,711</u>	<u>\$ (57,295)</u>	<u>\$ -</u>	<u>\$ 2,280,416</u>

Changes in capital assets for Component Units for the years ended December 31, 2016 and 2015 are as follows:

December 31, 2016	Beginning			Ending
Component Unit	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
Capital Assets not Depreciated				
Construction in Progress	\$ 945,590	\$ 195,614	\$ -	\$ 1,141,204
Capital Assets Depreciated				
Equipment	99,530	-	-	99,530
Buildings	317,719	-	-	317,719
Total	<u>417,249</u>	<u>-</u>	<u>-</u>	<u>417,249</u>
Accumulated Depreciation				
Equipment	99,530	-	-	99,530
Buildings	50,835	6,354	-	57,189
Total	<u>150,365</u>	<u>6,354</u>	<u>-</u>	<u>156,719</u>
Net Capital Assets -				
Governmental Activities	<u>\$ 1,212,474</u>	<u>\$ 189,260</u>	<u>\$ -</u>	<u>\$ 1,401,734</u>

CITY OF CANDU, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

December 31, 2015 Component Unit	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets not Depreciated				
Construction in Progress	\$ 461,929	\$ 483,661	\$ -	\$ 945,590
Capital Assets Depreciated				
Equipment	99,530	-	-	99,530
Buildings	317,719	-	-	317,719
Total	<u>417,249</u>	<u>-</u>	<u>-</u>	<u>417,249</u>
Accumulated Depreciation				
Equipment	89,578	9,952	-	99,530
Buildings	44,481	6,354	-	50,835
Total	<u>134,059</u>	<u>16,306</u>	<u>-</u>	<u>150,365</u>
Net Capital Assets - Governmental Activities	<u>\$ 745,119</u>	<u>\$ 467,355</u>	<u>\$ -</u>	<u>\$ 1,212,474</u>

Depreciation expenses charged to functions in the Statement of Activities are as follows:

Governmental Activities	2015	2016
General Government	\$ 27,460	\$ 27,892
Public Safety	9,840	7,493
Public Works	56,097	48,470
Total Depreciation Expense - Gov	<u>\$ 93,397</u>	<u>\$ 83,855</u>
Business - Type Activities	2015	2016
Water	\$ 53,180	\$ 53,329
Sewer	22,962	22,962
Garbage	5,140	6,999
Audi Theater	6,375	6,375
Total Depreciation Expense - Business	<u>\$ 87,657</u>	<u>\$ 89,665</u>
Component Unit	2015	2016
Airport Authority	<u>\$ 16,306</u>	<u>\$ 6,354</u>

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 4 - CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Business-Type Activities long-term debt by individual issue for the years ended December 31, 2016 and 2015:

December 31, 2016 Business - Type Activities	Interest Rate	Beginning Balance	New Issues	Retired	Ending Balance	Due Within One Year
Revenue Bonds	1.0% - 4.2%	\$ 1,860,000	\$ -	\$ 95,000	\$ 1,765,000	\$ 100,000
State Revolving Fund Loan Payable	2.50%	15,000	-	15,000	-	-
Bond Discount		(27,466)		(1,717)	(25,749)	
Total		<u>\$ 1,847,534</u>	<u>\$ -</u>	<u>\$ 108,283</u>	<u>\$ 1,739,251</u>	<u>\$ 100,000</u>

December 31, 2015 Business - Type Activities	Interest Rate	Beginning Balance	New Issues	Retired	Ending Balance	Due Within One Year
Revenue Bonds	1.0% - 4.2%	\$ 1,960,000	\$ -	\$ 100,000	\$ 1,860,000	\$ 95,000
State Revolving Fund Loan Payable	2.50%	30,000	-	15,000	15,000	15,000
Bond Discount		(29,183)		(1,717)	(27,466)	
Total		<u>\$ 1,960,817</u>	<u>\$ -</u>	<u>\$ 113,283</u>	<u>\$ 1,847,534</u>	<u>\$ 110,000</u>

The amount of future payments and the combined future payments on the above Business-Type Activities long-term debt is as follows:

	<u>Business Type Activities</u>	
	Revenue Bonds Payable	
	Principal	Interest
2017	\$ 100,000	\$ 56,283
2018	100,000	54,783
2019	105,000	52,783
2020	100,000	50,683
2021	105,000	48,183
2022 - 2026	575,000	193,313
2027 - 2031	680,000	85,120
	<u>\$ 1,765,000</u>	<u>\$ 541,148</u>

Outstanding debt at December 31, 2016 and 2015 consists of the following issues:

	<u>2016</u>	<u>2015</u>
\$2,060,000 Water Revenue Refunding Bonds of 2013, due in annual installments of \$95,000 to \$145,000 through November 1, 2031; interest at 1% to 5%.	<u>\$ 1,765,000</u>	<u>\$ 1,860,000</u>
\$244,052 State Revolving Loan Series 1996, due in annual installments of \$10,000 to \$15,000 through September 15, 2016; Interest at 2.5%	<u>\$ -</u>	<u>\$ 15,000</u>

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 5 - PENSION PLAN

Defined Contribution Plan

The City of Cando participates in a Simplified Employee Pension Plan (SEP) administered by American Funds Service Company. The SEP is a single-employer defined contribution pension plan covering substantially all employees of the City of Cando.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City's contributions for the years ended December 31, 2016, 2015, and 2014 were \$13,715, \$21,374 and \$14,493, respectively.

NOTE 6 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance for risks of loss considered necessary, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City's property insurance is through the North Dakota State Fire and Tornado Fund, the liability insurance is provided through the North Dakota Insurance Reserve Fund, employee bond is provided by the North Dakota State Bond Fund, and workers' compensation is provided by the North Dakota Workforce Safety Insurance.

NOTE 7 - CONDUIT DEBT

The City of Cando acted as a sponsor for two Municipal Industrial Development Act Bond (MIDA) issues; \$175,000 Nursing Facility and Congregate Housing Revenue Bonds Series 2014B and \$2,410,000 Nursing Facility and Congregate Housing Revenue Bonds, Series 2014A. The City acts as the sponsor and is under no obligation for the payment of these bonds. At December 31, 2016 the following MIDA Bonds were outstanding:

<u>Entity</u>	<u>Balance</u>
Towner County Medcenter, Inc., Nursing Facility and Congregate Housing Revenue Bonds – Series 2014A	\$2,335,000

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Grant Programs

The City participates in various state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016 and 2015, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

NOTE 9 - SCHEDULE OF TRANSFERS

	2016	2015
Transfers to General Fund		
Social Security Fund	\$ -	\$ 34,604
Advertising and Promotion Fund	-	319
City Hall and Audi Fund	-	6,102
Employee Pension Fund	-	8,165
Insurance Reserve Fund	-	2,781
	\$ -	\$ 51,971
 Transfer to Water Fund		
City Sales Tax	\$ 21,000	\$ 30,089
Sewer Fund	20,000	-
	\$ 41,000	\$ 30,089

The transfer to the water fund from the sales tax fund and the sewer fund in 2016 was for debt service in the water fund. The transfer from the sales tax fund in 2015 to the water fund was for debt service. The transfers to the general fund in 2015 from various funds was to close the various funds and transfer the excess to the general fund. The Council has approved the transfers and amended the budget as necessary.

NOTE 10 – FUND BALANCE DEFICIT

The library fund has a deficit fund balance as of December 31, 2016 and 2015. This deficit will be funded through future revenues.

NOTE 11 - NEW PRONOUNCEMENTS

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effects these statements will have on its financial statements.

NOTE 12 - SUBSEQUENT EVENTS

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through October 13, 2017, which is the date these financial statements were available to be issued.

CITY OF CANDO, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Taxes	\$ 160,860	\$ 160,860	\$ 161,006	\$ 146
Licenses and Permits	5,225	5,225	5,820	595
Intergovernmental	138,500	138,500	89,873	(48,627)
Fine and Forfeits	3,000	3,000	98	(2,902)
Interest	1,500	1,500	1,739	239
Miscellaneous Revenue	<u>17,529</u>	<u>17,529</u>	<u>38,504</u>	<u>20,975</u>
Total Revenues	<u>326,614</u>	<u>326,614</u>	<u>297,040</u>	<u>(29,574)</u>
Expenditures				
Current				
General Government	157,377	157,377	138,068	19,309
Public Safety	154,919	154,919	141,456	13,463
Public Works	7,184	7,184	5,571	1,613
Capital Outlay	-	-	10,000	(10,000)
Total Expenditures	<u>319,480</u>	<u>319,480</u>	<u>295,095</u>	<u>24,385</u>
Net Change in Fund Balance	7,134	7,134	1,945	(5,189)
Fund Balance - January 1	<u>352,320</u>	<u>352,320</u>	<u>352,320</u>	-
Fund Balance - December 31	<u>\$ 359,454</u>	<u>\$ 359,454</u>	<u>\$ 354,265</u>	<u>\$ (5,189)</u>

See Notes to the Budgetary Comparison Schedule

CITY OF CANDO, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
HIGHWAY DISTRIBUTION FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues				
Intergovernmental	<u>\$ 111,500</u>	<u>\$ 111,500</u>	<u>\$ 93,201</u>	<u>\$ (18,299)</u>
Expenditures				
Current				
Public Works	90,000	90,000	71,827	18,173
Capital Outlay	<u>21,500</u>	<u>21,500</u>	<u>10,500</u>	<u>11,000</u>
Total Expenditures	<u>111,500</u>	<u>111,500</u>	<u>82,327</u>	<u>29,173</u>
Net Change in Fund Balance	-	-	10,874	10,874
Fund Balance - January 1	<u>169,113</u>	<u>169,113</u>	<u>169,113</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 169,113</u>	<u>\$ 169,113</u>	<u>\$ 179,987</u>	<u>\$ 10,874</u>

See Notes to the Budgetary Comparison Schedules

CITY OF CANDU, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
CITY SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues				
Taxes	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 145,063</u>	<u>\$ 25,063</u>
Expenditures				
Current				
General Government	2,400	2,400	9,426	(7,026)
Capital Outlay	-	-	15,695	(15,695)
Total Expenditures	<u>2,400</u>	<u>2,400</u>	<u>25,121</u>	<u>(22,721)</u>
Excess Revenues Over (Under)				
Expenditures	117,600	117,600	119,942	47,784
Other Financing Sources (Uses)				
Operating Transfers (Out)	<u>(48,500)</u>	<u>(48,500)</u>	<u>(21,000)</u>	<u>27,500</u>
Total Other Financing Sources (Uses)	<u>(48,500)</u>	<u>(48,500)</u>	<u>(21,000)</u>	<u>27,500</u>
Net Change in Fund Balance	69,100	69,100	98,942	29,842
Fund Balance - January 1	<u>309,711</u>	<u>309,711</u>	<u>309,711</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 378,811</u>	<u>\$ 378,811</u>	<u>\$ 408,653</u>	<u>\$ 29,842</u>

See Notes to the Budgetary Comparison Schedules

CITY OF CANDO, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$ 111,710	\$ 111,710	\$ 100,131	\$ (11,579)
Licenses and Permits	6,000	6,000	10,995	4,995
Intergovernmental	133,500	133,500	139,729	6,229
Fine and Forfeits	2,000	2,000	3,780	1,780
Interest	1,500	1,500	1,744	244
Miscellaneous Revenue	<u>12,529</u>	<u>12,529</u>	<u>28,903</u>	<u>16,374</u>
Total Revenues	<u>267,239</u>	<u>267,239</u>	<u>285,282</u>	<u>18,043</u>
Expenditures				
Current				
General Government	144,436	144,436	164,309	(19,873)
Public Safety	145,727	145,727	203,690	(57,963)
Public Works	<u>5,684</u>	<u>5,684</u>	<u>4,763</u>	<u>921</u>
Total Expenditures	<u>295,847</u>	<u>295,847</u>	<u>372,762</u>	<u>(76,915)</u>
Excess Revenues Over (Under) Expenditures	(28,608)	(28,608)	(87,480)	94,958
Other Financing Sources (Uses)				
Operating Transfers In	<u>36,800</u>	<u>36,800</u>	<u>51,971</u>	<u>15,171</u>
Total Other Financing Sources (Uses)	<u>36,800</u>	<u>36,800</u>	<u>51,971</u>	<u>15,171</u>
Net Change in Fund Balance	8,192	8,192	(35,509)	(43,701)
Fund Balance - January 1	<u>387,829</u>	<u>387,829</u>	<u>387,829</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 396,021</u>	<u>\$ 396,021</u>	<u>\$ 352,320</u>	<u>\$ (43,701)</u>

See Notes to the Budgetary Comparison Schedules

CITY OF CANDU, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
HIGHWAY DISTRIBUTION FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
Intergovernmental	<u>\$ 186,728</u>	<u>\$ 186,728</u>	<u>\$ 105,369</u>	<u>\$ (81,359)</u>
Expenditures				
Current				
Public Works	<u>156,728</u>	<u>156,728</u>	<u>129,135</u>	<u>27,593</u>
Total Expenditures	<u>156,728</u>	<u>156,728</u>	<u>129,135</u>	<u>27,593</u>
Excess Revenues Over (Under)				
Expenditures	30,000	30,000	(23,766)	(108,952)
Other Financing Sources (Uses)				
Operating Transfers (Out)	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>30,000</u>
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>	<u>30,000</u>
Net Change in Fund Balance	-	-	(23,766)	(23,766)
Fund Balance - January 1	<u>192,879</u>	<u>192,879</u>	<u>192,879</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 192,879</u>	<u>\$ 192,879</u>	<u>\$ 169,113</u>	<u>\$ (23,766)</u>

See Notes to the Budgetary Comparison Schedules

CITY OF CANDU, NORTH DAKOTA
BUDGETARY COMPARISON SCHEDULE
BUDGET TO ACTUAL – MODIFIED CASH BASIS
CITY SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budget Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues				
Taxes	<u>\$ 110,000</u>	<u>\$ 110,000</u>	<u>\$ 141,976</u>	<u>\$ 31,976</u>
Expenditures				
Current				
General Government	<u>2,200</u>	<u>2,200</u>	<u>9,250</u>	<u>(7,050)</u>
Total Expenditures	<u>2,200</u>	<u>2,200</u>	<u>9,250</u>	<u>(7,050)</u>
Excess Revenues Over (Under)				
Expenditures	107,800	107,800	132,726	39,026
Other Financing Sources (Uses)				
Operating Transfers (Out)	<u>(32,000)</u>	<u>(32,000)</u>	<u>(30,089)</u>	<u>1,911</u>
Total Other Financing Sources (Uses)	<u>(32,000)</u>	<u>(32,000)</u>	<u>(30,089)</u>	<u>1,911</u>
Net Change in Fund Balance	75,800	75,800	102,637	26,837
Fund Balance - January 1	<u>207,074</u>	<u>207,074</u>	<u>207,074</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 282,874</u>	<u>\$ 282,874</u>	<u>\$ 309,711</u>	<u>\$ 26,837</u>

See Notes to the Budgetary Comparison Schedules

CITY OF CANDO, NORTH DAKOTA
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Information

The City Commission adopts a budget on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This basis is substantially the same as the basis used for financial reporting. The budget is prepared for the general fund, each special revenue fund, each debt service fund, and each capital projects fund. The City is required to present the adopted and final amended budgeted receipts and disbursements for each of these funds.

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

- 1) The City Commission makes a preliminary budget annually on or before September 10th. The budget includes proposed expenditures and a means of financing them.
- 2) The governing board holds a public meeting hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget.
- 3) After the budget hearing, the board adopts the final budget. The final budget must be filed with the county auditor by October 10th.
- 4) No disbursements shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any receipts and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- 5) All annual appropriations lapse at year-end.

CITY OF CANDU, NORTH DAKOTA
NOTES TO THE BUDGETARY COMPARISON SCHEDULES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 – EXPENDITURES IN EXCESS OF BUDGET

December 31, 2016

CY General Fund			
	Budget	Actual	Excess
Expenditures			
Capital Outlay	\$ -	\$ 10,000	\$ 10,000

Sales Tax Fund			
	Budget	Actual	Excess
Expenditures			
Current			
General Government	\$ 2,400	\$ 9,426	\$ 7,026

December 31, 2015

General Fund			
	Budget	Actual	Excess
Expenditures			
Current			
General Government	\$ 144,436	\$ 164,309	\$ 19,873
Public Safety	145,727	203,690	57,963

Sales Tax Fund			
	Budget	Actual	Excess
Expenditures			
Current			
General Government	\$ 2,200	\$ 9,250	\$ 7,050

Funds sufficient to provide for the excess expenditures were made available from other funds; the excess has no impact on the financial results of the City.

CITY OF CANDO, NORTH DAKOTA
COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

	Fire Equipment and Operation	Emergency	City Share - Special Assessments	Cando Community Development	Street Impr 03-1	Trust and Agency Fund	Cemetery Fund	Job Development	Library Fund	Airport Fund	Total Governmental
Assets											
Current											
Cash & Cash Equivalents	\$ 1,359	\$ 12,456	\$ 15,294	\$ 5,477	\$ 132,579	\$ 19,685	\$ 2,618	\$ 741	\$ (4,050)	\$ 10,410	\$ 196,569
Total Assets	\$ 1,359	\$ 12,456	\$ 15,294	\$ 5,477	\$ 132,579	\$ 19,685	\$ 2,618	\$ 741	\$ (4,050)	\$ 10,410	\$ 196,569
Liabilities and Fund Balances											
Fund Balances											
Restricted for Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 132,579	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,579
Restricted-other	1,359	12,456	15,294	5,477	-	19,685	2,618	741	-	10,410	68,040
Unassigned	-	-	-	-	-	-	-	-	(4,050)	-	(4,050)
Total Fund Balance	1,359	12,456	15,294	5,477	132,579	19,685	2,618	741	(4,050)	10,410	196,569
Total Liabilities and Fund Balance	\$ 1,359	\$ 12,456	\$ 15,294	\$ 5,477	\$ 132,579	\$ 19,685	\$ 2,618	\$ 741	\$ (4,050)	\$ 10,410	\$ 196,569

CITY OF CANDO, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGED IN FUND BALANCE – NONMAJOR SPECIAL
REVENUE FUNDS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Fire Equipment and Operation	Emergency	City Share - Special Assessments	Cando Community Development	Street Impr 03-1	Trust and Agency Fund	Cemetery Fund	Job Development	Library Fund	Airport Fund	Total Governmental
Revenues											
Taxes	\$ 8,586	\$ 18	\$ 110	\$ 48,355	\$ 2,734	\$ -	\$ 3,448	\$ 3,255	\$ 13,812	\$ 4,456	\$ 84,774
Intergovernmental	-	-	-	-	-	-	-	-	1,394	-	1,394
Miscellaneous Revenue	1,500	-	-	-	-	3,361	2,685	-	-	-	7,546
Total Revenues	<u>10,086</u>	<u>18</u>	<u>110</u>	<u>48,355</u>	<u>2,734</u>	<u>3,361</u>	<u>6,133</u>	<u>3,255</u>	<u>15,206</u>	<u>4,456</u>	<u>93,714</u>
Expenditures - Gov											
Current											
General Government	-	-	-	43,528	69,040	12,000	-	3,259	17,637	2,754	148,218
Public Safety	9,591	-	-	-	-	-	-	-	-	-	9,591
Public Works	-	-	-	-	-	-	11,039	-	-	-	11,039
Total Expenditures	<u>9,591</u>	<u>-</u>	<u>-</u>	<u>43,528</u>	<u>69,040</u>	<u>12,000</u>	<u>11,039</u>	<u>3,259</u>	<u>17,637</u>	<u>2,754</u>	<u>168,848</u>
Excess Revenues Over (Under)											
Expenditures	495	18	110	4,827	(66,306)	(8,639)	(4,906)	(4)	(2,431)	1,702	(75,134)
Fund Balance - January 1	<u>864</u>	<u>12,438</u>	<u>15,184</u>	<u>650</u>	<u>198,885</u>	<u>28,324</u>	<u>7,524</u>	<u>745</u>	<u>(1,619)</u>	<u>8,708</u>	<u>271,703</u>
Fund Balance - December 31	<u>\$ 1,359</u>	<u>\$ 12,456</u>	<u>\$ 15,294</u>	<u>\$ 5,477</u>	<u>\$ 132,579</u>	<u>\$ 19,685</u>	<u>\$ 2,618</u>	<u>\$ 741</u>	<u>\$ (4,050)</u>	<u>\$ 10,410</u>	<u>\$ 196,569</u>

CITY OF CANDO, NORTH DAKOTA
COMBINING BALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDS
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2015

	Fire Equipment and Operation	Emergency	City Share - Special Assessments	Cando Community Development	Street Impr 03-1	Trust and Agency Fund	Cemetery Fund	Job Development	Library Fund	Airport Fund	Total Governmental
Assets											
Current											
Cash & Cash Equivalents	\$ 864	\$ 12,438	\$ 15,184	\$ 650	\$ 198,885	\$ 28,324	\$ 7,524	\$ 745	\$ (1,619)	\$ 8,708	\$ 271,703
Total Assets	\$ 864	\$ 12,438	\$ 15,184	\$ 650	\$ 198,885	\$ 28,324	\$ 7,524	\$ 745	\$ (1,619)	\$ 8,708	\$ 271,703
Liabilities and Fund Balances											
Fund Balances											
Restricted for Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 198,885	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198,885
Restricted-other	864	12,438	15,184	650	-	28,324	7,524	745	-	8,708	74,437
Unassigned	-	-	-	-	-	-	-	-	(1,619)	-	(1,619)
Total Fund Balance	864	12,438	15,184	650	198,885	28,324	7,524	745	(1,619)	8,708	271,703
Total Liabilities and Fund Balance	\$ 864	\$ 12,438	\$ 15,184	\$ 650	\$ 198,885	\$ 28,324	\$ 7,524	\$ 745	\$ (1,619)	\$ 8,708	\$ 271,703

CITY OF CANDO, NORTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR SPECIAL
REVENUE FUNDS
MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Social Security Fund	Advertising and Promotion	Fire Equipment and Operation	City Hall and Audi	Emergency	Employee Pension Fund	Insurance Reserve	City Share - Special Assessments	Cando Community Development	Street Impr 03-1	Trust and Agency Fund	Cemetery Fund	Job Development	Library Fund	Airport Fund	Total Governmental
Revenues																
Taxes	\$ 33,710	\$ 1,892	\$ 8,503	\$ 7,615	\$ 3,434	\$ 7,564	\$ 6,037	\$ 349	\$ 47,326	\$ 5,570	\$ -	\$ 3,419	\$ 3,244	\$ 13,246	\$ 4,909	\$ 146,818
Miscellaneous Revenue	-	-	1,500	-	-	-	2,283	-	-	-	1,755	2,168	-	5,000	-	12,706
Total Revenues	33,710	1,892	10,003	7,615	3,434	7,564	8,320	349	47,326	5,570	1,755	5,587	3,244	18,246	4,909	159,524
Expenditures - Gov																
Current																
General Government	-	2,450	-	6,806	-	-	9,589	-	52,406	-	-	-	3,157	18,073	2,132	94,613
Public Safety	-	-	9,823	-	-	-	-	-	-	-	-	-	-	-	-	9,823
Public Works	-	-	-	-	-	-	-	-	-	-	-	10,078	-	-	-	10,078
Total Expenditures	-	2,450	9,823	6,806	-	-	9,589	-	52,406	-	-	10,078	3,157	18,073	2,132	114,514
Excess Revenues Over (Under) Expenditures	33,710	(558)	180	809	3,434	7,564	(1,269)	349	(5,080)	5,570	1,755	(4,491)	87	173	2,777	45,010
Other Financing Sources (Uses)																
Operating Transfers (Out)	(34,604)	(319)	-	(6,102)	-	(8,165)	(2,781)	-	-	-	-	-	-	-	-	(51,971)
Excess Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(894)	(877)	180	(5,293)	3,434	(601)	(4,050)	349	(5,080)	5,570	1,755	(4,491)	87	173	2,777	(6,961)
Fund Balance - January 1	894	877	684	5,293	9,004	601	4,050	14,835	5,730	193,315	26,569	12,015	658	(1,792)	5,931	278,664
Fund Balance - December 31	\$ -	\$ -	\$ 864	\$ -	\$ 12,438	\$ -	\$ -	\$ 15,184	\$ 650	\$ 198,885	\$ 28,324	\$ 7,524	\$ 745	\$ (1,619)	\$ 8,708	\$ 271,703



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Mayor and Council Members of
the City Council
City of Cando, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cando, North Dakota as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-001 to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-002, 2016-003, 2016-004 and 2016-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cando, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2016-006.

City of Cando, North Dakota's Response to the Findings

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

Purpose of this Report

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



**BRADY, MARTZ & ASSOCIATES, P.C.
GRAND FORKS, NORTH DAKOTA**

October 13, 2017

CITY OF CANDO, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Finding 2016-001

Condition:

A proper separation of duties for internal control does not exist. The City of Cando has one office employee, the Deputy City Auditor, responsible for all accounting functions involved. The deputy auditor handles all incoming monies, prepares the receipts therefore, prepares the checks, and does the bank reconciliations. The Deputy City Auditor also records the receipts and disbursements to the journals and maintains the general ledger. The City Auditor does monitor the Deputy City Auditor, but the risk of misstatement of the City's financial condition remains present.

Criteria:

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

Cause:

Considering the size of the City, it is not feasible to maintain proper separation of duties.

Effect:

Lack of segregation of duties leads to a limited degree of internal control.

Recommendation:

Proper separation of duties should be obtained where feasible.

Response:

We concur with the auditor's recommendation; however, considering the size of the entity it is not feasible to obtain proper separation of duties.

CITY OF CANDO, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Finding 2016-002

Condition:

1. The landfill and the campground locations have a lack of controls over cash collections at each location. The landfill location has an individual receiving the cash paid for usage, but there are no receipts given to customers or cash logs maintained. Cash is brought to the deputy auditor and no receipts are given to the landfill worker.
2. The campground location has a payment drop box in which campground users pay using an honor system. Every Monday, a city worker picks up the funds left in the drop box and brings to the city auditor. There are no cash receipt forms filled out.

Criteria:

There should be sufficient controls in place to ensure that the receipts are deposited intact and accounted for in the general ledger by the accounting staff.

Cause:

Procedures have not been designed properly.

Effect:

The receipts may not be deposited intact and accounted for in total by the accounting staff.

Recommendation:

We recommend the city develop appropriate receipt and tracking procedures to better control cash receipts.

Response:

We concur with the auditor's recommendation.

Finding 2016-003

Condition:

There are no reviews performed on adjustments made by the Deputy City Auditor to utility accounts.

Criteria:

There should be sufficient controls in place to ensure that adjustments to utility accounts are proper.

Cause:

Internal control system has not been designed to include this procedure.

Effect:

An improper adjustment could be made to utility accounts and the City not collect the correct amount of revenue from its customers.

Recommendation:

We recommend the Deputy City Auditor print an adjustments report from the billing software and have this report reviewed and approved by the city council at the city council meeting.

Response:

We concur with the auditor's recommendation.

CITY OF CANDO, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Finding 2016-004

Condition:

There are no reviews performed on manual journal entries made by the Deputy City Auditor and posted to the general ledger.

Criteria:

There should be sufficient controls in place to ensure that journal entries are proper.

Cause:

Internal control system has not been designed to include this procedure.

Effect:

An improper adjustment could be made to the general ledger.

Recommendation:

We recommend the Deputy City Auditor print a journal entry report from the software and have this report reviewed and approved by the city council at the city council meeting.

Response:

We concur with the auditor's recommendation.

Finding 2016-005

Criteria:

An organization should design an internal control system to provide for the preparation of financial statements of the City.

Condition:

The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Cause:

The City personnel do not have the time to draft the financial statements and notes to the financial statements.

Effect:

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation:

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Management and those charged with governance should consider engaging other accountants to draft the financial statements and notes to the financial statements.

Management's Response:

We concur with the auditor's finding and will consider the risks and costs associated with the financial statement preparation.

CITY OF CANDU, NORTH DAKOTA
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

Finding 2016-006

Criteria:

In accordance with North Dakota Century Code 21-04-13, in January of each even numbered year a city is required to designate their depositories of public funds.

Condition:

The City did not designate their depositories and approve the designation and document this designation in the city council minutes in accordance with the century code.

Cause:

This was an oversight by the City Council.

Effect:

Funds could be deposited to unauthorized depositories.

Recommendation:

We recommend the city council designate official depositories in accordance with North Dakota Century Code.

Management's Response:

We concur with the auditor's recommendation.