



City of Devils Lake

Devils Lake, North Dakota

Audit Report

For the Year Ended December 31, 2016

JOSHUA C. GALLION
STATE AUDITOR

Office of the State Auditor
Division of Local Government

CITY OF DEVILS LAKE
Devils Lake, North Dakota

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CITY OF DEVILS LAKE
Devils Lake, North Dakota

CITY OFFICIALS

As of December 31, 2016

Richard S. Johnson	President
Rick Morse	Commissioner
Craig Stromme	Commissioner
Dale Robbins	Commissioner
Ben Sander	Commissioner
Terry Johnston	City Administrator
J. Thomas Traynor, Jr.	Attorney

AIRPORT OFFICIALS

Dennis Olson	Chairman
Renard Bergstrom	Board Member
Lt. Col. Brock Larson	NG Liaison Member
Craig Stromme	Board Member
Jeff Frith	Board Member
Rodger Haugen	Board Member
John Nord	Manager
J. Thomas Traynor, Jr.	Attorney



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Devils Lake
Devils Lake, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, North Dakota, as of and for the year ended December 31, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake, North Dakota, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CITY OF DEVILS LAKE

Independent Auditor's Report - Continued

Other Matters

Required Supplementary Information

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

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, pension schedules, and the notes to the required supplementary information* on pages 39-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Devils Lake's basic financial statements. The *schedule of fund activity* is presented for purposes of additional analysis and are not a required part of the financial statements.

The *schedule of fund activity* is the responsibility of management and was derived from and relates 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of fund activity* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2017 on our consideration of the City of Devils Lake'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 Devils Lake's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
August 24, 2017

CITY OF DEVILS LAKE
Devils Lake, North Dakota
STATEMENT OF NET POSITION
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport
ASSETS				
Cash and Investments	\$ 4,703,190	\$ 1,511,818	\$ 6,215,008	\$ -
Cash with Fiscal Agent	2,209,222	-	2,209,222	-
Utility Billings Receivable	14,511	258,476	272,987	-
Accounts Receivable	73,417	78,167	151,584	4,214
Intergovernmental Receivable	373,313	10,135	383,448	-
Due from County	1,872	-	1,872	-
Taxes Receivable	35,614	-	35,614	1,187
Special Assessments Receivable	7,111	-	7,111	-
Loans Receivable	38,971	-	38,971	-
Long-Term Receivable:				
Uncertified Special Assessments Receivable	1,144,824	-	1,144,824	-
Capital Assets:				
<i>Not Being Depreciated</i>				
Land	3,392,293	218,289	3,610,582	722,089
Construction in Progress	209,077,143	-	209,077,143	602,022
<i>Being Depreciated</i>				
Buildings	3,002,244	245,130	3,247,374	1,636,777
Equipment and Vehicles	904,687	874,795	1,779,482	695,467
Infrastructure	37,542,812	21,974,553	59,517,365	18,487,248
Total Capital Assets	\$ 253,919,179	\$ 23,312,767	\$ 277,231,946	\$ 22,143,603
Total Assets	\$ 262,521,224	\$ 25,171,363	\$ 287,692,587	\$ 22,149,004
DEFERRED OUTFLOWS OF RESOURCES:				
Pensions	\$ 525,415	\$ 108,797	\$ 634,212	\$ 31,116
Total Assets & Deferred Outflows of Resources	\$ 263,046,639	\$ 25,280,160	\$ 288,326,799	\$ 22,180,120
LIABILITIES				
Accounts Payable	\$ 203,134	\$ 76,467	\$ 279,601	\$ 25,735
Cash Overdraft Liability	-	-	-	285,067
Retainage Payable	4,412	-	4,412	-
IBNR Payable	58,000	-	58,000	-
Interest Payable	90,291	19,500	109,791	-
Long-Term Liabilities:				
Portion Due or Payable Within One Year:				
Sales Tax Bonds Payable	330,000	-	330,000	-
Revenue Bond Drawdowns	-	180,000	180,000	-
Special Assessment Bonds Payable	940,000	-	940,000	-
Contract for Deed	38,300	-	38,300	-
Capital Leases Payable	36,348	-	36,348	-
Compensated Absences Payable	150,280	57,075	207,355	16,281
Portion Due or Payable After One Year:				
Sales Tax Bonds Payable	4,515,000	-	4,515,000	-
Revenue Bond Drawdowns	-	2,160,000	2,160,000	-
Special Assessment Bonds Payable	7,995,000	-	7,995,000	-
Contract for Deed	201,801	-	201,801	-
Compensated Absences Payable	350,654	133,171	483,825	37,990
Net Pension Liability	580,862	162,049	742,911	39,246
Total Liabilities	\$ 15,494,082	\$ 2,788,262	\$ 18,282,344	\$ 404,319
DEFERRED INFLOWS OF RESOURCES:				
Pensions	\$ 69,936	\$ 9,551	\$ 79,487	\$ 2,313
Total Liabilities & Deferred Inflows of Resources	\$ 15,564,018	\$ 2,797,813	\$ 18,361,831	\$ 406,632
NET POSITION				
Net Investment in Capital Assets	\$ 239,862,730	\$ 23,312,767	\$ 263,175,497	\$ 22,143,603
Restricted for:				
Debt Service	2,725,781	-	2,725,781	-
General Government	2,026,520	-	2,026,520	-
Public Works	909,389	-	909,389	-
Emergencies	34,519	-	34,519	-
Economic/Job Development	357,247	-	357,247	-
Culture and Recreation	107,933	-	107,933	-
Conservation of Natural Resources	5,469	-	5,469	-
Unrestricted	1,453,033	(830,420)	622,613	(370,115)
Total Net Position	\$ 247,482,621	\$ 22,482,347	\$ 269,964,968	\$ 21,773,488

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF ACTIVITIES
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 Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit Airport
Primary Government:								
<u>Governmental Activities:</u>								
General Government	\$ 2,423,685	\$ 213,794	\$ 84,441	\$ -	\$ (2,125,450)		\$ (2,125,450)	
Public Safety	2,743,628	-	31,464	-	(2,712,164)		(2,712,164)	
Public Works	2,136,499	263,198	477,484	256,842	(1,138,975)		(1,138,975)	
Economic Development	504,395	-	-	-	(504,395)		(504,395)	
Culture and Recreation	70,247	5,561	1,000	-	(63,686)		(63,686)	
Conserv. of Natural Resources	50,769	-	-	-	(50,769)		(50,769)	
Health and Welfare	15,406	-	-	-	(15,406)		(15,406)	
Other	21,035	-	-	-	(21,035)		(21,035)	
Interest & Fees on Long-Term Debt	378,552	-	-	-	(378,552)		(378,552)	
Total Governmental Activities	\$ 8,344,216	\$ 482,553	\$ 594,389	\$ 256,842	\$ (7,010,432)		\$ (7,010,432)	
<u>Business-Type Activities:</u>								
Water Operations	\$ 1,393,281	\$ 819,539	\$ -	\$ -	\$ -	\$ (573,742)	\$ (573,742)	
Water Source Replacement	73,992	270,264	-	-	-	196,272	-	
Sewer	957,769	681,968	-	-	-	(275,801)	-	
Sanitation	1,379,794	1,776,813	5,000	-	-	402,019	-	
Other Enterprise Funds	-	12	-	-	-	12	12	
Total Business-Type Activities	\$ 3,804,836	\$ 3,548,596	\$ 5,000	\$ -	\$ -	\$ (251,240)	\$ (573,730)	
Total Primary Government	\$ 12,149,052	\$ 4,031,149	\$ 599,389	\$ 256,842	\$ (7,010,432)	\$ (251,240)	\$ (7,584,162)	
<u>Component Unit:</u>								
Airport	\$ 1,655,645	\$ 167,496	\$ 314,385	\$ 601,737				\$ (572,027)
<u>General Revenues:</u>								
Taxes:								
Property taxes, levied for general purposes					\$ 2,549,588	\$ -	\$ 2,549,588	\$ 152,535
Property taxes, levied for special purposes					282,911	-	282,911	-
Property taxes, levied for Debt Service					288,510	-	-	-
Sales taxes					1,764,357	312,130	2,076,487	-
Non restricted grants and contributions					596,163	-	596,163	-
Unrestricted investment earnings					12,009	504	12,513	-
Sale of Capital Assets					12,211	-	12,211	-
Miscellaneous					269,497	11,735	281,232	43,115
Transfers of Capital Assets					(201,076)	201,076	-	-
Net Cash Transfers					1,036,066	(1,036,066)	-	-
Total General Revenues and Transfers					\$ 6,610,236	\$ (510,621)	\$ 5,811,105	\$ 195,650
Changes in Net Position					\$ (400,196)	\$ (761,861)	\$ (1,162,057)	\$ (376,377)
Net Position - January 1					\$ 247,806,862	\$ 23,244,208	\$ 271,051,070	\$ 22,149,865
Prior Period Adjustments					75,955	-	75,955	-
Net Position - January 1, as restated					\$ 247,882,817	\$ 23,244,208	\$ 271,127,025	\$ 22,149,865
Net Position - December 31					\$ 247,482,621	\$ 22,482,347	\$ 269,964,968	\$ 21,773,488

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General Fund	Lake Region Growth Fund	Infrastructure	Equipment Reserve	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
ASSETS								
Cash and Investments	\$ -	\$ 258,646	\$ -	\$ 1,850,288	\$ (1)	\$ 1,635,822	\$ 587,583	\$ 4,332,338
Cash with Fiscal Agent	-	-	-	-	2,209,222	-	-	2,209,222
Accounts Receivable	66,569	-	-	-	-	-	6,848	73,417
Utility Billings Receivable	14,511	-	-	-	-	-	-	14,511
Intergovernmental Receivable	226,598	-	62,840	-	-	26,353	57,522	373,313
Due from County	1,534	-	-	-	-	84	254	1,872
Taxes Receivable	27,377	-	-	-	-	1,891	6,346	35,614
Special Assessments Receivable	-	-	-	-	-	7,111	-	7,111
Uncertified Special Assessments Receivable	-	-	-	-	-	1,144,824	-	1,144,824
Loans Receivable	-	38,971	-	-	-	-	-	38,971
Due from Other Funds	2,651,406	-	739,106	17,651	-	-	-	3,408,163
Total Assets	\$ 2,987,995	\$ 297,617	\$ 801,946	\$ 1,867,939	\$ 2,209,221	\$ 2,816,085	\$ 658,553	\$ 11,639,356
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES								
Liabilities:								
Accounts Payable	\$ 92,743	\$ 188	\$ 8,793	\$ -	\$ 4,636	\$ 13	\$ 96,724	\$ 203,097
Due to Other Funds	-	-	-	-	3,406,320	-	1,843	3,408,163
Total Liabilities	\$ 92,743	\$ 188	\$ 8,793	\$ -	\$ 3,410,956	\$ 13	\$ 98,567	\$ 3,611,260
Deferred Inflows of Resources:								
Uncollected Taxes Receivable	\$ 27,377	\$ -	\$ -	\$ -	\$ -	\$ 1,891	\$ 6,346	\$ 35,614
Uncollected Special Assessments Receivable	-	-	-	-	-	7,111	-	7,111
Uncertified Special Assessments Receivable	-	-	-	-	-	1,144,824	-	1,144,824
Total Deferred Inflows of Resources	\$ 27,377	\$ -	\$ -	\$ -	\$ -	\$ 1,153,826	\$ 6,346	\$ 1,187,549
Total Liabilities & Deferred Inflows of Resources	\$ 120,120	\$ 188	\$ 8,793	\$ -	\$ 3,410,956	\$ 1,153,839	\$ 104,913	\$ 4,798,809
Fund Balances:								
Non-Spendable:								
Loans Receivable	\$ -	\$ 38,972	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,972
Restricted:								
Debt Service	-	-	-	-	-	1,662,246	-	1,662,246
General Government	-	-	-	1,867,939	-	-	190,002	2,057,941
Public Safety	-	-	-	-	-	-	260	260
Public Works/Streets	-	-	793,153	-	-	-	162,571	955,724
Emergency	-	-	-	-	-	-	34,142	34,142
Economic Development	-	258,457	-	-	-	-	58,631	317,088
Culture & Recreation	-	-	-	-	-	-	79,244	79,244
Conservation of Natural Resources	-	-	-	-	-	-	5,267	5,267
Committed:								
Asset Forfeiture Buy Fund	-	-	-	-	-	-	2,815	2,815
City Beautification	-	-	-	-	-	-	20,708	20,708
Unassigned:								
General Fund	2,867,875	-	-	-	-	-	-	2,867,875
Negative Fund Balances	-	-	-	-	(1,201,735)	-	-	(1,201,735)
Total Fund Balances	\$ 2,867,875	\$ 297,429	\$ 793,153	\$ 1,867,939	\$ (1,201,735)	\$ 1,662,246	\$ 553,640	\$ 6,840,547
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,987,995	\$ 297,617	\$ 801,946	\$ 1,867,939	\$ 2,209,221	\$ 2,816,085	\$ 658,553	\$ 11,639,356

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
December 31, 2016

Total *Fund Balances* for Governmental Funds \$ 6,840,547

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of Capital Assets	\$ 296,464,289	
Less Accumulated Depreciation	<u>(42,545,110)</u>	253,919,179

Property taxes and special assessments will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.

Property Taxes	\$ 35,614	
Special Assessments	7,111	
Long-Term Uncertified Special Assessments	<u>1,144,824</u>	1,187,549

Internal service funds are used by management to charge the costs of certain activities such as self insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.

312,815

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Pension Deferred Inflows of Resources	\$ (69,936)	
Pension Deferred Outflows of Resources	<u>525,415</u>	455,479

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities --both current and long-term--are reported in the statement of net position. Balances at December 31, 2016 are:

Special Assessment Bonds Payable	\$ (8,935,000)	
Sales Tax Bonds Payable	(4,845,000)	
Contract for Deed	(240,101)	
Capital Leases Payable	(36,348)	
Retainage Payable	(4,412)	
Interest Payable	(90,291)	
Compensated Absences	(500,934)	
Net Pension Liability	<u>(580,862)</u>	
Total Long-Term Liabilities		<u>(15,232,948)</u>

Total Net Position of Governmental Activities	<u><u>\$ 247,482,621</u></u>
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The notes to the financial statements are an integral part of this statement.

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	General Fund	Lake Region Growth Fund	Infrastructure	Equipment Reserve	Capital Project Funds	Debt Service Funds	Other Governmental Funds	Total Governmental Funds
Revenues:								
Taxes	\$ 2,544,116	\$ -	\$ -	\$ -	\$ -	\$ 289,123	\$ 284,827	\$ 3,118,066
Special Assessment Taxes	-	-	-	-	828	305,022	19,849	325,699
Sales Taxes	-	-	1,270,822	-	-	177,350	316,185	1,764,357
Licenses, Permits and Fees	84,441	-	-	-	-	-	-	84,441
Charges for Services	253,742	-	-	-	6,851	-	43,897	304,490
Intergovernmental	606,390	-	-	-	109,622	-	390,099	1,106,111
Fines, Forfeitures and Penalties	178,063	-	-	-	-	-	-	178,063
Interest	4,104	-	-	4,446	-	-	3,459	12,009
Miscellaneous	237,591	3,112	-	-	14,501	221	14,072	269,497
Total Revenues	\$ 3,908,447	\$ 3,112	\$ 1,270,822	\$ 4,446	\$ 131,802	\$ 771,716	\$ 1,072,388	\$ 7,162,733
Expenditures:								
Current:								
General Government	\$ 2,044,719	\$ -	\$ 49,542	\$ -	\$ -	\$ 42,302	\$ 172,477	\$ 2,309,040
Public Safety	2,484,519	-	-	-	-	-	27,700	2,512,219
Public Works	620,380	-	312,212	-	-	-	476,082	1,408,674
Economic Development	-	366,137	-	-	-	-	110,480	476,617
Culture and Recreation	27,100	-	-	-	-	-	209,232	236,332
Conserv. of Natural Resources	50,769	-	-	-	-	-	-	50,769
Health and Welfare	15,406	-	-	-	-	-	-	15,406
Other	21,035	-	-	-	-	-	-	21,035
Capital Outlay	-	-	-	-	3,894,720	-	24,000	3,918,720
Debt Service:								
Principal	177,103	36,827	-	-	-	945,000	-	1,158,930
Interest	6,501	11,077	-	-	-	379,942	1,245	398,765
Total Expenditures	\$ 5,447,532	\$ 414,041	\$ 361,754	\$ -	\$ 3,894,720	\$ 1,367,244	\$ 1,021,216	\$12,506,507
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,539,085)	\$ (410,929)	\$ 909,068	\$ 4,446	\$ (3,762,918)	\$ (595,528)	\$ 51,172	\$ (5,343,774)
Other Financing Sources (Uses):								
Sale of Capital Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,211	\$ -	\$ 12,211
Transfers In	1,241,491	255,664	-	234,722	692,374	719,578	178,282	3,322,111
Transfers Out	(28,043)	(26,200)	(1,220,156)	(207,500)	(266,342)	(182,488)	(355,316)	(2,286,045)
Total Other Financing Sources and Uses	\$ 1,213,448	\$ 229,464	\$ (1,220,156)	\$ 27,222	\$ 426,032	\$ 549,301	\$ (177,034)	\$ 1,048,277
Special Item:								
Loan Forgiveness	\$ -	\$ (2,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,000,000)
Net Change in Fund Balances	\$ (325,637)	\$ (2,181,465)	\$ (311,088)	\$ 31,668	\$ (3,336,886)	\$ (46,227)	\$ (125,862)	\$ (6,295,497)
Fund Balance - January 1	\$ 3,193,512	\$ 2,478,894	\$ 1,104,241	\$1,836,271	\$ 2,135,151	\$ 1,708,473	\$ 679,502	\$13,136,044
Fund Balance - December 31	\$ 2,867,875	\$ 297,429	\$ 793,153	\$1,867,939	\$ (1,201,735)	\$ 1,662,246	\$ 553,640	\$ 6,840,547

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net Change in *Fund Balances* - Total Governmental Funds \$ (6,295,497)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay, and capital contributions exceeded transfers and depreciation in the current period.

Current Year Capital Outlay	\$ 4,386,947	
Capital Contribution	979,624	
Transfer to Enterprise	(201,076)	
Current Year Depreciation Expense	<u>(2,212,080)</u>	2,953,415

The City accepted capital assets for the forgiveness of a loan receivable in the growth fund. The loan is considered paid in full and in return the City received and reported a capital asset. 2,000,000

In the statement of activities, only the loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the net effect of transactions involving capital assets (i.e., sales, trade-ins) is to decrease net position. (32,060)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Change in Compensated Absences	\$ (26,104)	
Net Change in Retainage Payable	31,946	
Net Change in Interest Payable	<u>20,213</u>	26,055

The Net Pension Liability, and related Deferred Outflows of Resources and Deferred Inflows of Resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Net Change in Pension Liability	\$ (262,330)	
Net Change in Deferred Inflows of Resources for Pensions	2,583	
Net Change in Deferred Outflows of Resources for Pensions	<u>171,741</u>	(88,006)

The proceeds of debt issuances are reporting as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt repayment.

Repayment of Long-Term Debt		1,158,930
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Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. The net effect is:

Net Change in Taxes Receivable	\$ 2,943	
Net Change in Special Assessments Receivable	1,347	
Net Change in Uncertified Special Assessments Receivable	<u>(70,204)</u>	(65,914)

The net loss of certain activities of the internal service fund is reported with governmental activities. (57,119)

Change in Net Position of Governmental Activities \$ (400,196)

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total	
ASSETS:							
<u>Current Assets:</u>							
Cash and Investments	\$ 211,419	\$ 266,907	\$ 383,665	\$ 641,387	\$ 8,440	\$ 1,511,818	\$ 370,852
Utility Billings Receivable	50,612	26,386	50,929	130,516	33	258,476	-
Accounts Receivable	62,148	-	16,019	-	-	78,167	-
Intergovernmental Receivables	-	-	10,135	-	-	10,135	-
Total Current Assets	\$ 324,179	\$ 293,293	\$ 460,748	\$ 771,903	\$ 8,473	\$ 1,858,596	\$ 370,852
<u>Noncurrent Assets:</u>							
<i>Capital Assets Not Being Depreciated</i>							
Land	\$ 122,184	\$ -	\$ 17,151	\$ 78,954	\$ -	\$ 218,289	\$ -
<i>Capital Assets Being Depreciated</i>							
Buildings	-	-	182,080	63,050	-	245,130	-
Equipment and Vehicles	169,574	-	279,341	425,880	-	874,795	-
Infrastructure	17,048,966	-	4,490,407	435,180	-	21,974,553	-
Total Noncurrent Assets	\$ 17,340,724	\$ -	\$ 4,968,979	\$ 1,003,064	\$ -	\$ 23,312,767	\$ -
Total Assets	\$ 17,664,903	\$ 293,293	\$ 5,429,727	\$ 1,774,967	\$ 8,473	\$ 25,171,363	\$ 370,852
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>							
Pensions	\$ 21,508	\$ -	\$ 31,009	\$ 56,280	\$ -	\$ 108,797	\$ -
Total Assets & Deferred Outflows of Resources	\$ 17,686,411	\$ 293,293	\$ 5,460,736	\$ 1,831,247	\$ 8,473	\$ 25,280,160	\$ 370,852
LIABILITIES:							
<u>Current Liabilities:</u>							
Accounts Payable	\$ 21,744	\$ -	\$ 10,773	\$ 43,950	\$ -	\$ 76,467	\$ 37
Accrued Interest Payable	-	19,500	-	-	-	19,500	-
Revenue Drawdown	-	180,000	-	-	-	180,000	-
Compensated Absences	8,986	-	20,381	27,708	-	57,075	-
IBNR Claims	-	-	-	-	-	-	58,000
Total Current Liabilities	\$ 30,730	\$ 199,500	\$ 31,154	\$ 71,658	\$ -	\$ 333,042	\$ 58,037
<u>Noncurrent Liabilities:</u>							
Revenue Drawdown	\$ -	\$ 2,160,000	\$ -	\$ -	\$ -	\$ 2,160,000	\$ -
Compensated Absences	20,966	-	47,554	64,651	-	133,171	-
Net Pension Liability	30,798	-	45,576	85,675	-	162,049	-
Total Noncurrent Liabilities	\$ 51,764	\$ 2,160,000	\$ 93,130	\$ 150,326	\$ -	\$ 2,455,220	\$ -
Total Liabilities	\$ 82,494	\$ 2,359,500	\$ 124,284	\$ 221,984	\$ -	\$ 2,788,262	\$ 58,037
<u>DEFERRED INFLOWS OF RESOURCES:</u>							
Pensions	\$ 1,815	\$ -	\$ 2,686	\$ 5,050	\$ -	\$ 9,551	\$ -
Total Liabilities & Deferred Inflows of Resources	\$ 84,309	\$ 2,359,500	\$ 126,970	\$ 227,034	\$ -	\$ 2,797,813	\$ 58,037
<u>NET POSITION:</u>							
Net Investment in Capital Assets	\$ 17,340,724	\$ -	\$ 4,968,979	\$ 1,003,064	\$ -	\$ 23,312,767	\$ -
Unrestricted	261,378	(2,066,207)	364,787	601,149	8,473	(830,420)	312,815
Total Net Position	\$ 17,602,102	\$ (2,066,207)	\$ 5,333,766	\$ 1,604,213	\$ 8,473	\$ 22,482,347	\$ 312,815

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total	
<u>Operating Revenues:</u>							
Charges for Services	\$ 819,539	\$ 270,264	\$ 681,968	\$ 1,776,813	\$ 12	\$ 3,548,596	\$ -
Contributions to Self Insurance	-	-	-	-	-	-	925,741
Total Operating Revenues	\$ 819,539	\$ 270,264	\$ 681,968	\$ 1,776,813	\$ 12	\$ 3,548,596	\$ 925,741
<u>Operating Expenses:</u>							
Operating Expenses	\$ 415,023	\$ -	\$ 543,343	\$ 717,300	\$ -	\$ 1,675,666	\$ -
Warwick Wells	49,246	-	-	-	-	49,246	-
Inert Landfill	-	-	-	45,941	-	45,941	-
Transfer Station	-	-	-	477,092	-	477,092	-
Health Insurance	-	-	-	-	-	-	1,012,524
Airport Lot Rent	8,334	-	8,334	6,666	-	23,334	-
Depreciation	920,678	-	406,092	132,795	-	1,459,565	-
Total Operating Expenses	\$ 1,393,281	\$ -	\$ 957,769	\$ 1,379,794	\$ -	\$ 3,730,844	\$ 1,012,524
Operating Income (Loss)	\$ (573,742)	\$ 270,264	\$ (275,801)	\$ 397,019	\$ 12	\$ (182,248)	\$ (86,783)
<u>Nonoperating Revenues (Expenses):</u>							
Investment Earnings	\$ 168	\$ -	\$ 168	\$ 168	\$ -	\$ 504	\$ 76
Intergovernmental	-	-	-	5,000	-	5,000	-
Sales and Use Tax	-	-	312,130	-	-	312,130	-
Other Nonoperating Revenues	1,034	-	10,701	-	-	11,735	29,588
Interest Expense and Service Charges	-	(73,992)	-	-	-	(73,992)	-
Total Nonoperating Revenues (Expenses)	\$ 1,202	\$ (73,992)	\$ 322,999	\$ 5,168	\$ -	\$ 255,377	\$ 29,664
Income (Loss) Before Contributions and Transfers	\$ (572,540)	\$ 196,272	\$ 47,198	\$ 402,187	\$ 12	\$ 73,129	\$ (57,119)
Transfers In	\$ 72,000	\$ 102,000	\$ -	\$ 100	\$ -	\$ 174,100	\$ -
Transfers of Capital Assets	76,863	-	124,213	-	-	201,076	-
Transfers Out	(296,931)	-	(376,040)	(537,195)	-	(1,210,166)	-
Change in Net Position	\$ (720,608)	\$ 298,272	\$ (204,629)	\$ (134,908)	\$ 12	\$ (761,861)	\$ (57,119)
Net Position - January 1	\$18,322,710	\$ (2,364,479)	\$ 5,538,395	\$ 1,739,121	\$ 8,461	\$ 23,244,208	\$ 369,934
Net Position - December 31	\$17,602,102	\$ (2,066,207)	\$ 5,333,766	\$ 1,604,213	\$ 8,473	\$ 22,482,347	\$ 312,815

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Fund
	Water Fund	Water Source Replacement Fund	Sewer Fund	Sanitation Fund	Other Enterprise Funds	Total	
Cash Flows from Operating Activities:							
Receipts from Customers	\$ 871,536	\$ 269,285	\$ 671,059	\$ 1,771,891	\$ 12	\$ 3,583,783	\$ 925,741
Payments to Suppliers	(265,340)	-	(435,116)	(753,600)	-	(1,454,056)	(967,288)
Payments to Employees	(213,145)	-	(118,969)	(457,086)	-	(789,200)	-
Other Receipts	1,034	-	10,701	-	-	11,735	29,588
Net Cash Provided by Operating Activities	\$ 394,085	\$ 269,285	\$ 127,675	\$ 561,205	\$ 12	\$ 1,352,262	\$ (11,959)
Cash Flows from Noncapital Financing Activities:							
Transfers In	\$ 72,000	\$ 102,000	\$ -	\$ 100	\$ -	\$ 174,100	\$ -
Operating Grant	-	-	-	5,000	-	5,000	-
Sales Tax	-	-	320,664	-	-	320,664	-
Transfers Out	(296,931)	-	(376,040)	(537,195)	-	(1,210,166)	-
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (224,931)	\$ 102,000	\$ (55,376)	\$ (532,095)	\$ -	\$ (710,402)	\$ -
Cash Flows from Capital and Related Financing Activities:							
Purchases and Construction of Capital Assets	\$ (138,530)	\$ -	\$ (238,731)	\$ (15,165)	\$ -	\$ (392,426)	\$ -
Principal Paid on Capital Debt	-	(175,000)	-	-	-	(175,000)	-
Interest and Fees Paid on Capital Debt	-	(75,450)	-	-	-	(75,450)	-
Net Cash (Used) by Capital and Related Financing Activities	\$ (138,530)	\$ (250,450)	\$ (238,731)	\$ (15,165)	\$ -	\$ (642,876)	\$ -
Cash Flows from Investing Activities:							
Interest Income	\$ 168	\$ -	\$ 168	\$ 168	\$ -	\$ 504	\$ 76
Net Increase (Decrease) in Cash & Cash Equivalents	\$ 30,792	\$ 120,835	\$ (166,264)	\$ 14,113	\$ 12	\$ (512)	\$ (11,883)
Cash and Cash Equivalents, January 1	\$ 180,627	\$ 146,072	\$ 549,929	\$ 627,274	\$ 8,428	\$ 1,512,330	\$ 382,735
Cash and Cash Equivalents, December 31	\$ 211,419	\$ 266,907	\$ 383,665	\$ 641,387	\$ 8,440	\$ 1,511,818	\$ 370,852
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities							
Operating Income (Loss)	\$ (573,742)	\$ 270,264	\$ (275,801)	\$ 397,019	\$ 12	\$ (182,248)	\$ (86,783)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:							
Depreciation Expense	\$ 920,678	\$ -	\$ 406,092	\$ 132,795	\$ -	\$ 1,459,565	\$ -
Non-operating revenues classified as cash inflows from operations	1,034	-	2,168	-	-	3,202	29,588
Change in Assets and Liabilities:							
Utility Billings Receivable	(2,994)	(979)	(8,286)	(4,922)	-	(17,181)	-
Accounts Receivable	54,991	-	(2,624)	-	-	52,367	-
Intergovernmental Receivables	-	-	8,533	-	-	8,533	-
Prepaid Expense	-	-	-	-	-	-	42,198
Accounts Payable	(5,686)	-	(16,795)	1,384	-	(21,097)	38
Compensated Absences	(5,532)	-	4,987	16,339	-	15,794	-
Net Pension	5,336	-	9,401	18,590	-	33,327	-
IBNR Claims	-	-	-	-	-	-	3,000
Net Cash Provided by Operating Activities	\$ 394,085	\$ 269,285	\$ 127,675	\$ 561,205	\$ 12	\$ 1,352,262	\$ (11,959)

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
December 31, 2016

	Agency Funds
<u>Assets:</u>	
Cash and Cash Equivalents	\$ 37,878
Accounts Receivable	<u>8,881</u>
Total Assets	<u>\$ 46,759</u>
<u>Liabilities:</u>	
Accounts Payable	\$ 2,647
Due to Other Entities	<u>44,112</u>
Total Liabilities	<u>\$ 46,759</u>

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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The City of Devils Lake, North Dakota operates under a Home Rule Charter and various applicable sections in Title 40 of the North Dakota Century Code. The financial statements of the city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Devils Lake. 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Devils Lake 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 Devils Lake.

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

COMPONENT UNIT

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

Discretely Presented Component Unit: The component unit's column in the combined 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.

Devils Lake Airport Authority - The Devils Lake Airport Authority manages the local airport facility. The authority's five member board is appointed by the City Commission. The authority is fiscally dependent upon the city because the City Commission levies taxes and must approve any bond issuances.

B. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Special assessments, intergovernmental revenues, charges for services and investment income are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

When both restricted and unrestricted resources are available for use, it is the city's policy to use unrestricted resources first, and then restricted resources as they are needed.

C. Basis of Presentation

Government-wide statements: The statement of net position and the statement of activities display information about the primary government, the City of Devils Lake and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

The city reports the following major governmental funds:

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

Lake Region Growth Fund. This fund accounts for resources used for loans to local businesses to provide economic growth.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

Infrastructure Fund. This fund is used to account for financial resources used for the maintenance of the City of Devils Lake infrastructure. Primary source of revenue is restricted sales tax for infrastructure maintenance.

Equipment Reserve Fund. This fund is used to account for financial resources used for purchasing equipment.

Capital Project Funds. Capital projects funds are used to account for financial resources, including special assessments, to be used for the acquisition or construction of major capital facilities, (other than those financed by proprietary funds and trust funds).

Debt Service Funds. Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs. Revenue sources in this fund are restricted solely for debt retirement.

The City reports the following major enterprise funds:

Water Fund. This fund accounts for the activity of the Water Department. The department operates the water distribution system in the City of Devils Lake.

Water Source Replacement Fund. This fund is used to account for financial resources to be used for replacement of water system infrastructure.

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

Sanitation Fund. This fund accounts for the activities of the garbage collection system within the City of Devils Lake.

Additionally, the city reports the following funds:

Internal Service Fund. This fund accounts for providing health insurance benefits provided to other departments of the City of Devils Lake on a cost reimbursement basis.

Agency Fund. This fund accounts for cash held by the City of Devils Lake for the Lake Region Narcotics Task Force.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the inter-fund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water fund, Sewer fund, Sanitation fund, Water Source Replacement fund, and of the city's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, salaries, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts, and certificates of deposit with maturities of less than 90 days.

Investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

E. Capital Assets

Capital assets include property, plant and equipment. Capital assets are reported in the governmental activities and the business-type activities columns in the government-wide financial statements, and are reported in the water fund, sewer fund, and sanitation fund in the enterprise fund statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. General infrastructure assets acquired or constructed after July 1, 1980 are reported at historical cost or estimated historical cost.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Improvements	15-50 years
Vehicles	7-10 years
Equipment	7-10 years
Sanitation Infrastructure	25-30 years
Sewer Infrastructure	20-50 years
Water Infrastructure	25-30 years
Airport Infrastructure	30-75 years
Infrastructure	10-40 years
Roads - Asphalt	20 years
Roads - Concrete	30 years
Dike	40 years

F. Compensated Absences

Full-time employees are granted vacation benefits from 8 to 16 hours per month depending on tenure with the City. Upon termination of employment, employees will be paid for vacation benefits that have been accrued to a maximum of 240 hours and comp time earned up to a maximum of 32 hours if the employee's starting date was as of July 1, 2010. If the terminated employee had a start date before July 1, 2010, the employee will be paid for vacation benefits that have been accrued to a maximum of 360 hours and comp time earned up to a maximum of 32 hours. Sick leave benefits accrue at the rate of 8 hours per month. Unused sick leave benefits are allowed to accumulate indefinitely. Upon termination of employment or retirement, unused sick leave will be paid at a rate of 25% of the employee's regular pay rate for unused days.

G. Fund Balances and Net Position

Fund Balances:

GASB Statement No. 54 established new fund balance spending priorities, minimum fund balance policies, and fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

Fund Balance Spending Policy:

It is the policy of the City of Devils Lake to reduce funds from the listed areas in the following order: restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

Minimum Fund Balance Policy, Budget Stabilization, & Replenishing Deficiencies

It is the policy of the City of Devils Lake to maintain a minimum unassigned fund balance in the general fund of \$1,500,000. The unassigned general fund balance at 12-31-2016 was \$2,867,875, or 52.7% of 2016 expenditures. The minimum fund balance is designed to protect against cash flow shortfalls related to timing of projected revenues and to maintain a budget stabilization commitment.

When fund balance falls below the minimum 33% range, the City will replenish shortages/deficiencies using budget strategies and time frames described below:

- City will reduce recurring expenditures to eliminate any structural deficit, or;
- City will increase revenues or pursue other funding sources, or;
- Combination of the two options above;

Minimum fund balances shall be replenished within the following time periods:

- Deficiency resulting in minimum fund balance between 25% and 33% shall be replenished over a period not to exceed one year;
- Deficiency resulting in minimum fund balance between 20% and 25% shall be replenished over a period not to exceed three years;
- Deficiency resulting in minimum fund balance of less than 20% shall be replenished over a period not to exceed five years;

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below:

CLASSIFICATION	DEFINITION	EXAMPLES
Non-spendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables (loans), endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants, taxes raised for a specific purpose.
Committed	A 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, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the city auditor.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance; (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes;	Available for any remaining general fund expenditure.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

The City of Devils Lake reports non-spendable, restricted, committed, and unassigned fund balances at December 31, 2016.

Non-spendable fund balance is reported in the Lake Region Growth Fund for loans receivable.

Restricted fund balances are reported for advances, and for the debt service fund, capital project funds, and various functions within the special revenue funds for restricted tax levies, and amounts restricted by state and federal grants/contracts totaling.

Committed fund balance is reported in the city beautification fund and the asset forfeiture buy fund which were both committed by the governing board.

Unassigned fund balances are reported for the remaining portion of the general fund and for negative cash fund balances reported in the capital projects fund.

Net Position:

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets in the statement of net position is shown for capital assets less accumulated depreciation, and less any related debt used to finance the purchase and construction of those capital assets. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

Restrictions of net position shown in the net position statement are due to restricted tax levies and restricted Federal & State grants/reimbursements. Net position in the statement of net position is also shown by primary function (as fund balance are shown) as fund balances are shown and is restricted for debt service, capital projects, general government, public safety, public works, emergencies, economic development/job development, culture and recreation, and conservation of natural resources.

Unrestricted net position consists primarily of unrestricted amounts related to the general fund and enterprise funds and business-type activities, as well as amounts reclassified for negative cash balances from the capital project funds. The unrestricted net position is available to meet the district's ongoing obligations.

NOTE 2: DEPOSITS

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

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

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

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

At year ended December 31, 2016, the City's carrying amount of deposits was \$8,119,244 and the bank balances totaled \$9,082,497. Of the bank balances, \$591,535 was covered by Federal Depository Insurance. \$2,152,016 was held at the Bank of North Dakota, which are not required to provide security pledges. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2016, the city held certificates of deposit totaling \$1,814,669.

NOTE 3: CASH WITH FISCAL AGENT

For the Embankment Raise Project, monies have been held with fiscal agents during the construction of the infrastructure. The monies have only one purpose and that is to fund the project. The entities that have held the designated funds include the Bank of North Dakota (\$2,152,016), and Corp of Engineers (\$57,206).

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account from individuals for goods and services furnished by the city in the enterprise funds. No allowance has been established for estimated uncollectible accounts receivable.

NOTE 5: INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivables consist of reimbursements due from various governments for city sales tax, hospitality tax, grants and other aid.

NOTE 6: UTILITY BILLINGS RECEIVABLE

Utility billings receivable consists of amounts due from citizens on open account for water, sewer and garbage services furnished by the city. No allowance has been established for uncollectible utility billings receivable.

NOTE 7: TAXES RECEIVABLE

The taxes receivable represents the past three years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

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

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

CITY OF DEVILS LAKE**Notes to the Financial Statements – Continued**

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

NOTE 8: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable consists of uncollected special assessments due the City at December 31 for debt service fund regular tax levies. No allowance has been established for uncollectible special assessments.

NOTE 9: LONG-TERM SPECIAL ASSESSMENTS RECEIVABLE

Long-term special assessments receivable consists of the uncertified special assessments that have not yet been certified, which represents a long-term receivable in the financial statements. No allowance has been established for uncollectible long-term special assessments receivable.

NOTE 10: LOANS RECEIVABLE

The City provides loans and grants to businesses for either startup costs or expansion costs. The Community Development Corporation (CDC) receives applications from various businesses. The CDC screens the applications then brings the applications to the governing board that either approves or denies the application. The city sets up a payment schedule with interest for the loans to be repaid. No allowance for doubtful loans has been set up as the city expects to collect 100%. The activity and balances related to these loans are reported in the Lake Region Growth Fund. The city has the following loan activity for the year ended December 31, 2016.

Name/Business	Balance 1/1/16	Write-offs Adjustments	Payments	Balance 12/31/16
Goldade Processing	\$ 27,755	\$ -	\$ 4,915	\$ 22,840
Jason Mitchell	687	(687)	-	-
Flatlander Foods Inc.	34,698	-	18,567	16,131
Ultra Green Packaging *	2,000,000	(2,000,000)	-	-
Total Net Loans Receivable	\$ 2,063,140	\$ (2,000,687)	\$ 23,482	\$ 38,971

* - Loan with Ultra Green Packaging was written off per settlement agreement reached. Equipment was released in exchange for building to satisfy the loan. The asset will be valued at the loan balance that was forgiven.

NOTE 11: DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions for differences in actual and expected experience and district contributions made subsequent to the measurement date.

NOTE 12: ACCOUNTS PAYABLE

Accounts payable consists of amounts owed to individuals and to entities for goods received and services rendered prior to December 31, 2016.

NOTE 13: INTEREST PAYABLE

Interest payable consists of the portion of interest accrued on long-term debt (bonds payable and leases payable) outstanding at December 31, 2016.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

NOTE 14: DUE TO/FROM OTHER FUNDS

Due to/from other funds represents the amount of negative cash reported in various capital projects funds and non-major funds totaling \$3,408,163 covered by the general fund (\$2,651,406), the infrastructure fund (\$739,106), and the equipment reserve fund (\$17,651).

NOTE 15: ADVANCES DUE TO/FROM

The City had inter-fund loans receivable (shown as advances due to/from on the government wide balance sheet) due to the General Fund from the Airport Hanger and the Sales and Use Tax funds. The balances and payments are shown on the table below:

Fund	Balance 1/1/2016	Issued	Payments	Balance 12/31/2016
Airport Hangar	\$ 24,879	\$ -	\$ 24,879	\$ -

The advance to the special revenue fund (airport hangar) represented the amount that the general fund loaned for the airport hangar. The advance was paid back from funds received from Devils Lake Aero and from the Lake Region Growth Fund. An advance from the general fund in the special revenue fund offset this.

NOTE 16: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

Governmental Activities	Balance 1/1/16	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 3,300,543	\$ 119,450	\$ 27,700	\$ -	\$ 3,392,293
Construction in Progress	204,812,170	4,646,420	162	(381,285)	209,077,143
Total Capital Assets, Not Being Depreciated	\$ 208,112,713	\$ 4,765,870	\$ 27,862	\$ (381,285)	\$212,469,436
<i>Capital assets being depreciated:</i>					
Buildings	\$ 3,481,775	\$ 2,000,000	\$ -	\$ -	\$ 5,481,775
Equipment	4,387,810	107,338	59,045	-	4,436,103
Infrastructure	73,403,404	493,362	-	180,209	74,076,975
Total Capital Assets, Being Depreciated	\$ 81,272,989	\$ 2,600,700	\$ 59,045	\$ 180,209	\$ 83,994,853
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 2,361,494	\$ 118,037	\$ -	\$ -	\$ 2,479,531
Equipment	3,347,929	238,334	54,847	-	3,531,416
Infrastructure	34,678,454	1,855,709	-	-	36,534,163
Total Accumulated Depreciation	\$ 40,387,877	\$ 2,212,080	\$ 54,847	\$ -	\$ 42,545,110
Total Capital Assets Being Depreciated, Net	\$ 40,885,112	\$ 388,620	\$ 4,198	\$ 180,209	\$ 41,449,743
Governmental Activities Capital Assets, Net	\$ 248,997,825	\$ 5,154,490	\$ 32,060	\$ (201,076)	\$253,919,179

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

Governmental Activities:	Amounts
General Government	\$ 32,909
Public Safety	209,812
Economic Development	27,778
Public Works & Infrastructure	1,904,269
Culture/Recreation	37,312
Total	\$ 2,212,080

CITY OF DEVILS LAKE
Notes to the Financial Statements – Continued

Business-Type Activities - Water Fund	Balance 1/1/16	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 122,184	\$ -	\$ -	\$ -	\$ 122,184
Construction in Progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	\$ 122,184	\$ -	\$ -	\$ -	\$ 122,184
<i>Capital assets being depreciated:</i>					
Buildings	\$ 346,660	\$ -	\$ -	\$ -	\$ 346,660
Equipment	450,275	96,608	-	-	546,883
Infrastructure	24,717,367	41,922	-	76,863	24,836,152
Total Capital Assets, Being Depreciated	\$25,514,302	\$ 138,530	\$ -	\$ 76,863	\$25,729,695
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 346,660	\$ -	\$ -	\$ -	\$ 346,660
Equipment	345,532	31,777	-	-	377,309
Infrastructure	6,898,284	888,902	-	-	7,787,186
Total Accumulated Depreciation	\$ 7,590,476	\$ 920,679	\$ -	\$ -	\$ 8,511,155
Total Capital Assets Being Depreciated, Net	\$17,923,826	\$ (782,149)	\$ -	\$ 76,863	\$17,218,540
Total Capital Assets, Net	\$18,046,010	\$ (782,149)	\$ -	\$ 76,863	\$17,340,724

Business-Type Activities - Sewer Fund	Balance 1/1/16	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 17,151	\$ -	\$ -	\$ -	\$ 17,151
Construction in Progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	\$ 17,151	\$ -	\$ -	\$ -	\$ 17,151
<i>Capital assets being depreciated:</i>					
Buildings	\$ 1,360,772	\$ -	\$ -	\$ -	\$ 1,360,772
Equipment	997,026	232,436	48,644	-	1,180,818
Infrastructure	11,850,252	6,295	-	124,213	11,980,760
Total Capital Assets, Being Depreciated	\$ 14,208,050	\$ 238,731	\$ 48,644	\$ 124,213	\$ 14,522,350
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 1,137,255	\$ 41,437	\$ -	\$ -	\$ 1,178,692
Equipment	893,483	56,638	48,644	-	901,477
Infrastructure	7,182,337	308,016	-	-	7,490,353
Total Accumulated Depreciation	\$ 9,213,075	\$ 406,091	\$ 48,644	\$ -	\$ 9,570,522
Total Capital Assets Being Depreciated, Net	\$ 4,994,975	\$ (167,360)	\$ -	\$ 124,213	\$ 4,951,828
Total Capital Assets, Net	\$ 5,012,126	\$ (167,360)	\$ -	\$ 124,213	\$ 4,968,979

Business-Type Activities - Sanitation Fund	Balance 1/1/2016	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 78,954	\$ -	\$ -	\$ -	\$ 78,954
<i>Capital assets being depreciated:</i>					
Buildings	\$ 393,094	\$ -	\$ -	\$ -	\$ 393,094
Equipment	1,691,715	15,165	-	-	1,706,880
Infrastructure	496,666	-	-	-	496,666
Total Capital Assets, Being Depreciated	\$ 2,581,475	\$ 15,165	\$ -	\$ -	\$ 2,596,640
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 325,195	\$ 4,849	\$ -	\$ -	\$ 330,044
Equipment	1,172,863	108,137	-	-	1,281,000
Infrastructure	41,677	19,809	-	-	61,486
Total Accumulated Depreciation	\$ 1,539,735	\$ 132,795	\$ -	\$ -	\$ 1,672,530
Total Capital Assets Being Depreciated, Net	\$ 1,041,740	\$ (117,630)	\$ -	\$ -	\$ 924,110
Governmental Activities Capital Assets, Net	\$ 1,120,694	\$ (117,630)	\$ -	\$ -	\$ 1,003,064

CITY OF DEVILS LAKE
Notes to the Financial Statements – Continued

Business-Type Activities - Total	Balance 1/1/16	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 218,289	\$ -	\$ -	\$ -	\$ 218,289
Construction in Progress	-	-	-	-	-
Total Capital Assets, Not Being Depreciated	\$ 218,289	\$ -	\$ -	\$ -	\$ 218,289
<i>Capital assets being depreciated:</i>					
Buildings	\$ 2,100,526	\$ -	\$ -	\$ -	\$ 2,100,526
Equipment	3,139,016	344,209	48,644	-	3,434,581
Infrastructure	37,064,285	48,217	-	201,076	37,313,578
Total Capital Assets, Being Depreciated	\$ 42,303,827	\$ 392,426	\$ 48,644	\$ 201,076	\$ 42,848,685
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 1,809,110	\$ 46,286	\$ -	\$ -	\$ 1,855,396
Equipment	2,411,878	196,552	48,644	-	2,559,786
Infrastructure	14,122,298	1,216,727	-	-	15,339,025
Total Accumulated Depreciation	\$ 18,343,286	\$ 1,459,565	\$ 48,644	\$ -	\$ 19,754,207
Total Capital Assets Being Depreciated, Net	\$ 23,960,541	\$ (1,067,139)	\$ -	\$ 201,076	\$ 23,094,478
Governmental Activities Capital Assets, Net	\$ 24,178,830	\$ (1,067,139)	\$ -	\$ 201,076	\$ 23,312,767

Depreciation expense of \$920,769, \$406,091, and \$132,795 was charged to the water fund, sewer fund, and sanitation fund, respectively, for a total of \$1,459,565 to enterprise activities.

Airport - Component Unit	Balance 1/1/2016	Increases	Decreases	Transfers	Balance 12/31/16
<i>Capital assets not being depreciated:</i>					
Land	\$ 652,089	\$ 70,000	\$ -	\$ -	\$ 722,089
Construction in Progress	2,378,261	563,407	-	(2,339,646)	602,022
Total Capital Assets, Not Being Depreciated	\$ 3,030,350	\$ 633,407	\$ -	\$ (2,339,646)	\$ 1,324,111
<i>Capital assets being depreciated:</i>					
Buildings	\$ 2,007,740	\$ -	\$ -	\$ -	\$ 2,007,740
Equipment	1,988,225	-	-	-	1,988,225
Infrastructure	20,962,349	-	-	2,339,646	23,301,995
Total Capital Assets, Being Depreciated	\$ 24,958,314	\$ -	\$ -	\$ 2,339,646	\$ 27,297,960
<i>Less Accumulated Depreciation for:</i>					
Buildings	\$ 330,808	\$ 40,155	\$ -	\$ -	\$ 370,963
Equipment	1,201,603	91,155	-	-	1,292,758
Infrastructure	4,226,451	588,296	-	-	4,814,747
Total Accumulated Depreciation	\$ 5,758,862	\$ 719,606	\$ -	\$ -	\$ 6,478,468
Total Capital Assets Being Depreciated, Net	\$ 19,199,452	\$ (719,606)	\$ -	\$ 2,339,646	\$ 20,819,492
Governmental Activities Capital Assets, Net	\$ 22,229,802	\$ (86,199)	\$ -	\$ -	\$ 22,143,603

NOTE 17: CASH OVERDRAFT LIABILITY-AIRPORT

The cash overdraft liability represents the amount of pooled cash that was a negative amount for the airport at year end.

NOTE 18: IBNR CLAIMS

Claims which have been incurred at year-end, but not reported, have been recorded as a claims payable in the amount of \$58,000. Blue Cross/Blue Shield, the plan administrator, has calculated this reserve requirement.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

NOTE 19: TRANSFERS

The following is a reconciliation between cash transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

Fund	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 1,266,369	\$ 28,043
Lake Region Growth	255,664	26,200
Infrastructure	-	1,220,156
Capital Project Funds	692,374	266,342
Debt Service Funds	719,578	182,488
Highway Distribution	75,221	50,000
Emergency	-	25,000
Cemetery	5,225	18,995
Temporary Employee's Fund	62,836	-
Equipment Reserve	234,722	207,500
Economic Development	-	255,664
Library	-	1,605
Parking Authority	-	1,200
City Beautification	20,000	1,652
Job Development Authority	-	1,200
Airport Hangar	15,000	24,879
Enterprise Funds:		
Water	72,000	296,931
Sewer	-	376,039
Sanitation	100	537,195
Water Source Replacement	102,000	-
Total Transfers	\$ 3,521,089	\$ 3,521,089

NOTE 20: DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes receivable, uncollected special assessments receivable, and long-term uncertified special assessments receivable in the fund financial statements for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, uncollected taxes and special assessments receivable are measurable but not available.

Deferred inflows of resources in the government wide financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, this includes amounts related to pensions for the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

NOTE 21: LONG-TERM LIABILITIES

During the year ended December 31, 2016, the following changes occurred in long-term liabilities of the city:

PRIMARY GOVERNMENT

Governmental Activities	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Sales Tax Rev. Bond	\$ 4,955,000	\$ -	\$ 110,000	\$ 4,845,000	\$ 330,000
Spec. Assmt. Bonds	9,770,000	-	835,000	8,935,000	940,000
Contract for Deed	276,928	-	36,827	240,101	38,300
Capital Leases	213,451	-	177,103	36,348	36,348
Comp. Absences *	474,830	26,104	-	500,934	150,280
Net Pension Liability *	318,532	262,330	-	580,862	-
Total Governmental Activities	\$16,008,741	\$288,434	\$1,158,930	\$15,138,245	\$1,494,928

Business-Type Activities Water Fund	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Comp. Absences *	\$ 35,484	\$ -	\$ 5,532	\$ 29,952	\$ 8,986
Net Pension Liability *	19,233	11,565	-	30,798	-
Total Business Activities	\$ 54,717	\$ 11,565	\$ 5,532	\$ 60,750	\$ 8,986

Business-Type Activities Water Source Replacement Fund	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Revenue Bond Drawdowns	\$ 2,515,000	\$ -	\$ 175,000	\$ 2,340,000	\$ 180,000

Business-Type Activities Sewer Fund	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Comp. Absences *	\$ 62,948	\$ 4,987	\$ -	\$ 67,935	\$ 20,381
Net Pension Liability *	26,180	19,396	-	45,576	-
Total Business Activities	\$ 89,128	\$ 24,383	\$ -	\$ 113,511	\$ 20,381

Business-Type Activities Sanitation Fund	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Comp. Absences *	\$ 76,020	\$ 16,339	\$ -	\$ 92,359	\$ 27,708
Net Pension Liability *	52,821	32,854	-	85,675	-
Total Business Activities	\$ 128,841	\$ 49,193	\$ -	\$ 178,034	\$ 27,708

Business-Type Activities Total	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Revenue Bond Drawdowns	\$ 2,515,000	\$ -	\$ 175,000	\$ 2,340,000	\$ 180,000
Comp. Absences *	174,452	21,326	5,532	190,246	57,075
Net Pension Liability *	98,234	63,815	-	162,049	-
Total Business Activities	\$ 2,787,686	\$ 85,141	\$ 180,532	\$ 2,692,295	\$ 237,075

* - The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Component Unit – Airport Authority:

Airport Authority:	Balance 1/1/16	Increases	Decreases	Balance 12/31/16	Due Within One Year
Comp. Absences *	\$ 50,770	\$ 3,501	\$ -	\$ 54,271	\$ 16,281
Net Pension Liability *	23,788	15,458	-	39,246	-
Total Airport	\$ 74,558	\$ 18,959	\$ -	\$ 93,517	\$ 16,281

* - The change in compensated absences and net pension liability is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

CITY OF DEVILS LAKE**Notes to the Financial Statements – Continued**

Governmental Activities:**Sales Tax Revenue Bonds:**

\$2,500,000 of Sales Tax Revenue Bonds issued with a 2.5% interest rate. Installments range from \$115,000 to \$170,000 through 2030. \$ 1,970,000

\$2,875,000 of Sales Tax Revenue Bonds, series 2015B, due in annual installments of \$215,000 to \$260,000 through 2028; interest at 2.0% to 3.0%. 2,875,000

Total Sales Tax Bonds \$ 4,845,000

Special Assessment Bonds:

\$2,815,000 Refunding Improvement Bonds of 2014, Series A, due in annual installments of \$145,000 to \$230,000 through 2030; interest at 1.6% to 3.25%. \$ 2,650,000

\$2,370,000 Refunding Improvement Bonds Series 2010A, due in annual installments of \$220,000 to \$225,000 through 2018; interest at 2.1% to 2.4%. 445,000

\$3,920,000 Refunding Improvement Bonds Series 2011A, due in annual installments of \$175,000 to \$355,000 through 2027; interest at 1.3% to 3.0%. 2,700,000

\$1,960,000 Refunding Improvement Serial Bonds of 2015, Series A due in annual installments of \$115,000 to \$155,000 through 2031; interest at 1.6% to 3.00%. 1,960,000

\$1,355,000 Refunding Improvement Serial Bonds of 2013, Series A due in annual installments of \$45,000 to \$110,000 through 2029; interest at 1.25% to 3.90%. 1,180,000

Total Special Assessment Bonds \$ 8,935,000

Contract for Deed:

\$394,290 Contract for Deed for a parcel of land. The contract for deed is for 10 years with 4.0% interest. Last payment due in 2022. \$ 240,101

Capital Lease:

\$525,000 Capital Lease for a Spartan Platform Fire Truck. The lease is for 10 years at a 4.25% interest rate. Last payment due in 2017. \$ 36,348

Business-Type (Enterprise) Funds/Activities:**Water Fund Revenue Drawdowns:**

\$3,800,000 of Revenue Bonds were issued with a 2.5% interest rate. Installments range from \$180,000 to \$260,000 through 2027. \$ 2,340,000

CITY OF DEVILS LAKE
Notes to the Financial Statements – Continued

The annual debt service requirements for all long-term liabilities outstanding, except compensated absences and net pension liability as of December 31, 2016, are as follows:

GOVERNMENTAL ACTIVITIES								
Year Ending Dec. 31	Sales Tax Bonds		Spec. Assmt. Bonds		Contract for Deed		Leases Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 330,000	\$ 117,912	\$ 940,000	\$ 211,095	\$ 38,300	\$ 9,604	\$ 36,348	\$ 772
2018	340,000	110,738	865,000	195,876	39,832	8,072	-	-
2019	345,000	103,338	650,000	182,569	41,425	6,479	-	-
2020	355,000	95,837	635,000	171,151	43,082	4,822	-	-
2021	360,000	88,113	660,000	157,710	44,806	3,098	-	-
2022 - 2026	1,950,000	311,637	3,120,000	545,921	32,656	1,306	-	-
2027 - 2031	1,165,000	64,500	2,065,000	128,663	-	-	-	-
Totals	\$ 4,845,000	\$ 892,075	\$ 8,935,000	\$ 1,592,985	\$ 240,101	\$ 33,381	\$ 36,348	\$ 772

BUSINESS-TYPE ACTIVITIES		
Year Ending Dec. 31	Revenue Bonds	
	Principal	Interest
2017	\$ 180,000	\$ 58,500
2018	185,000	54,000
2019	195,000	49,375
2020	200,000	44,500
2021	205,000	39,500
2022 - 2026	1,115,000	117,750
2027 - 2031	260,000	6,500
Totals	\$ 2,340,000	\$ 370,125

NOTE 22: OPERATING LEASES

Operating Lease - The City leased two copiers and a postage machine under non-cancelable operating leases. The Library leased a copier. Operating lease payments totaled \$5,289 for the city and \$1,368 for the library during 2016. The future minimum lease payments for both leases are as follows:

GOVERNMENTAL ACTIVITIES				
Year Ending DEC. 31	Operating Leases			
	City Copier	Postage Meter	Library Copier	Total
2017	\$ 4,089	\$ 1,200	\$ 1,368	\$ 6,657
2018	4,089	300	1,026	5,415
2019	682	-	-	682
Totals	\$ 8,860	\$ 1,500	\$ 2,394	\$ 12,754

NOTE 23: PENSION PLAN
General Information about the NDPERS Pension Plan (Main and Law Enforcement System)
North Dakota Public Employees Retirement System (Main & Law Enforcement Systems)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

Main System

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Fire Fighters. The Law Enforcement System provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Main System

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired after January 1, 2016 the Rule of 85 will be replaced with a rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

Law Enforcement System

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55). The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 50-55 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System and in the Law Enforcement System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main and Law Enforcement System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member is not vested (is not 65 for the Main System and is not 55 for the Law Enforcement System or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently re-employed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Main System

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 6.19% and employer contribution rates are 7.93% of covered compensation.

Law Enforcement System

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

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	7.93%
State	6.00%	10.31%
National Guard (effective 8/1/2015)*	6.00%	9.81%
Law Enforcement without previous service	5.50%	7.93%

* Effective 1/1/2016, the member contribution rate for the National Guard will be 5.50%

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

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

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

At December 31, 2016, City of Devils Lake and its component unit reported a liability of \$771,618 (\$732,372, City and \$39,246, Airport) for its proportionate share of net pension liability for the Main System, and \$10,539 for the Law Enforcement System (governmental activities) for a total of \$782,157. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district's share of covered payroll in the Main System and Law Enforcement System pension plan relative to the covered payroll of all participating Main System and Law Enforcement System employers. At June 30, 2016, the Employer's proportion for the Main System was .079173 percent, which was an increase of .011508 percent from its proportion measured as of June 30, 2015. At June 30, 2016, the Employer's proportion for the Law Enforcement System was 16.454400 percent, which was a decrease of .256050 percent from its proportion measured as of June 30, 2015.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

For the year ended December 31, 2016, the Employer recognized total pension expense of \$176,245 for the main system, and \$57,158 for the law enforcement system, consisting of the following: \$130,267 (Governmental–Main System), \$57,158 (Governmental–Law Enforcement System), \$7,035 (Water), \$10,410 (Sewer), \$19,569 (Sanitation), and \$8,964 (Airport).

At December 31, 2016, the City and Component Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Main System - Governmental	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 8,567	\$ 5,281
Changes of Assumptions	52,576	28,334
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	79,568	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	225,986	-
District Contributions Subsequent to the Measurement Date	27,088	-
Total	\$ 393,786	\$ 33,615

Law Enforcement System - Governmental	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 41,851	\$ 6,637
Changes of Assumptions	12,873	25,160
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	35,104	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	482	4,524
District Contributions Subsequent to the Measurement Date	41,319	-
Total	\$ 131,629	\$ 36,321

Main System - Water	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 463	\$ 285
Changes of Assumptions	2,839	1,530
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	4,297	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	12,204	-
District Contributions Subsequent to the Measurement Date	1,706	-
Total	\$ 21,508	\$ 1,815

Main System - Sewer	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 685	\$ 422
Changes of Assumptions	4,202	2,264
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	6,359	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	18,059	-
District Contributions Subsequent to the Measurement Date	1,706	-
Total	\$ 31,009	\$ 2,686

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

Main System - Sanitation	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,287	\$ 793
Changes of Assumptions	7,898	4,256
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	11,953	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	33,948	-
District Contributions Subsequent to the Measurement Date	1,194	-
Total	\$ 56,280	\$ 5,050

Main System - Airport	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 590	\$ 363
Changes of Assumptions	3,618	1,950
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	5,475	-
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	15,551	-
District Contributions Subsequent to the Measurement Date	5,882	-
Total	\$ 31,116	\$ 2,313

\$27,088 (Governmental – Main System), \$41,319 (Governmental – Law Enforcement System), \$1,706 (Water), \$1,706 (Sewer), \$1,194 (Sanitation), and \$5,882 (Airport) reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017 for the Main System and Law Enforcement System.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

	Governmental		Business-Type			Component Unit
	Main System	Law Enforcement	Water	Sewer	Sanitation	Airport
2017	\$ 73,872	\$ 12,203	\$ 3,989	\$ 5,903	\$ 11,097	\$ 5,083
2018	73,872	12,203	3,989	5,903	11,097	5,083
2019	91,230	15,394	4,927	7,290	13,705	6,278
2020	77,186	11,790	4,168	6,168	11,595	5,311
Thereafter	16,924	2,399	914	1,352	2,542	1,165

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

As a result of the 2015 actuarial experience study, the NDPERS board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

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

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
<u>Governmental</u>			
Main System	\$ 808,992	\$ 570,323	\$ 369,232
Law Enforcement System	95,712	10,539	(57,020)
<u>Business-Type Activities</u>			
Water	43,687	30,798	19,939
Sewer	64,649	45,576	29,506
Sanitation	121,528	85,675	55,467
<u>Component Unit</u>			
Airport	55,669	39,246	25,408

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report for both systems.

NOTE 24: CONDUIT DEBT**Municipal Industrial Development Bonds:**

From time to time, the city has issued Municipal Industrial Development (MIDA) Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by property financed and are payable solely from the payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issue. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2016, there are four issuances of MIDA Bonds outstanding with an original principal value issued of \$19,086,540. The aggregate principal amount currently payable for the MIDA bonds is \$4,186,034.

Community Development Block Grants:

From time to time, the city has obtained Community Development Block Grants (CDBG) to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The grants are secured by property financed and are payable solely from the payments received on the underlying mortgage grants. Upon repayment of the grants, ownership of the acquired facilities transfers to the private-sector entity served by the grant. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the grants. Accordingly, the grants are not reported as liabilities in the accompanying financial statements.

As of December 31, 2016, there were 3 CDBG loans outstanding and two Governor's Fund loans outstanding, with an aggregate principal amount payable of \$512,424.

NOTE 25: RISK MANAGEMENT

The City of Devils Lake 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.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, automobile, and public assets insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$4,581,059 for public assets (mobile equipment and portable property) coverage, and also for governance liability of two million dollars per occurrence. The Devils Lake Airport Authority, a component unit, has coverage of two million dollars per occurrence for general liability, one million dollars for automobile, public assets coverage was \$725,160, and the Airport Authority also has two million dollars in coverage for personal injury and malpractice per occurrence with the Old Republic Insurance Company.

The City of Devils Lake also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$2,000,000 for the city employees. The State Bonding Fund does not currently charge any premium for this coverage.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

The city has workers compensation with the North Dakota Workforce, Safety and Insurance.

The city has retained risk for employee health insurance up to a maximum of \$100,000 per year per individual. They have purchased a stop loss policy for amounts in excess of 120% of expected claims.

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

NOTE 26: SEGMENT INFORMATION – PROPRIETARY FUNDS

The City of Devils Lake issued revenue bonds to finance costs in connection with the closure of its landfill. The city has established a separate fund to account for activities related to this bond issue. Summary financial information for the Landfill Closure Fund for the year ended December 31, 2016, is as follows:

CONDENSED STATEMENT OF NET POSITION	
<u>Assets:</u>	
Restricted Cash	\$ 8,440
Utility Billings Receivable	33
Total Assets	\$ 8,473
<u>Net Position:</u>	
Unrestricted	\$ 8,473

CONDENSED STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION	
Charges for Services	\$ 12
Change in Net Position	\$ 12
Net Position - January 1	\$ 8,461
Net Position - December 31	\$ 8,473

CONDENSED STATEMENT OF CASH FLOWS	
<u>Net Cash provided (used) by:</u>	
Operating Activities	\$ 12
Net increase (decrease) in cash	\$ 12
Beginning Cash	\$ 8,428
Ending Cash	\$ 8,440

NOTE 27: FUND DEFICITS

The following individual funds were in a deficit fund balance position at December 31, 2016:

Fund	Amount
Flood Protection 1-96	\$ (3,987,891)
Safe Routes to School	(3,632)
Fishing Piers	(68,955)
Sewer Improvement #58-15 - 16th & 17th St. SE.	(153,195)

The city will relieve the deficits in the construction funds with future special assessment collections. The remaining fund deficits will be relieved with future tax collections and transfers.

CITY OF DEVILS LAKE

Notes to the Financial Statements – Continued

NOTE 28: CONSTRUCTION COMMITMENTS

The City of Devils Lake had the following open construction contracts on various projects with balances owing and retainages payable at December 31, 2016:

Governmental Activities:

Project - City	Original Contract	Change Orders	Total Contract	Total Completed	Remaining Balance	Retainage
WM Impr 24-15 -- various	\$ 1,937,075	\$ 171,452	\$ 2,108,527	\$ 2,029,580	\$ 78,947	\$ 2,032
Highway 19 - City Share	174,399	1,672	176,071	108,009	68,062	2,204
Highway 20 - City Share	8,952	1,028	9,980	8,608	1,372	176
Total	\$ 2,120,426	\$ 174,152	\$ 2,294,578	\$ 2,146,197	\$ 148,381	\$ 4,412

Component Unit Activities:

Project - Airport	Original Contract	Change Orders	Total Contract	Total Completed	Remaining Balance	Retainage
Airport #34	\$ 85,009	\$ -	\$ 85,009	\$ 79,043	\$ 5,966	\$ -
Airport #35	130,311	-	130,311	41,254	89,057	-
Total	\$ 215,320	\$ -	\$ 215,320	\$ 120,297	\$ 95,023	\$ -

NOTE 29: RELATED PARTY TRANSACTION

The City of Devils Lake is involved with a related party that existed as of December 31, 2016. The nature of the relationship involved the City of Devils Lake and the City Administrator whom had a proportioned ownership status in Flatlander Foods Inc. Flatlander Foods had loan requests from North Central Planning Council (Which uses City of Devils Lake as a conduit) and Forward Devils Lake (economic development entity) that were in total to be \$360,000. The City of Devils Lake was responsible to contribute \$90,000 (60-month amortization schedule at 3% interest) which was paid from the City Growth Fund to Forward Devils Lake entity. The remaining \$270,000 was further split between the North Central Planning Council (\$180,000) and the North Dakota Development Fund (\$90,000).

NOTE 30: PRIOR PERIOD ADJUSTMENTS

Net position as of January 1, 2016 was restated due to prior period errors related to an pension items and an improperly reported lease payable.

The effect of the prior period adjustments to beginning net position are as follows:

	Govt. Activities
Net Position as previously reported	\$ 247,806,862
Adjustments to restate the January 1, 2016 net position for pension items and Leases as outlined below:	
Net Pension Liability	19,574
Pension Deferred Inflows of Resources	(33,733)
Pension Deferred Outflows of Resources	78,246
Lease Payable	11,868
Net Position, January 1, 2016 as restated	\$ 247,882,817

NOTE 31: TAX INCENTIVES

The City of Devils Lake negotiates property tax incentive agreements on an individual basis with certain individuals and various commercial entities/businesses. The City has the following types of tax incentive agreements with various individuals and commercial entities at December 31, 2016.

The City of Devils Lake will state individually the parties whom received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax incentive programs.

New and Expanding Business:

Businesses that are primarily sector industrial, commercial, retail or service are eligible for property tax incentives for new and expanding businesses if they meet state requirements (NDCC 40-57.1-03) and the guidelines stated below. The following criteria are only guidelines.

General criteria — In evaluation applications for property tax exemption, the City Commission will consider the following factors:

- Economic impact through increased construction activity, equipment purchases, additional product purchases, additional work activity, immediate and projected increases in property values, and impact on future tax collections
- Number of jobs created and employee benefits (types of jobs — professional, managerial, technical, skilled, unskilled with emphasis on full-time positions)
- Diversification of economic base
- Growth potential of company and industry and potential spin-off benefits
- Impact on city services: Can the company be accommodated within existing service levels, or will additional capacity be needed? Is the company locating where better use of existing services will take place or further the development plans of the City?
- Utilization of local resources: Will the company be an exporter from our region? Will it provide support services to existing companies? Use of raw materials and services developed in the area

Exemption Criteria:

Amount of exemption is per the following schedule: Year 1-5 — 100%

2016 Reduction in Taxes – Due to Agreements with Other Entities:

Total program reduction in taxes – \$22,022

Public Charity Exemption:

Public Charities are eligible for property tax incentives if they meet state requirements (NDCC 57-02-08(8)) and the guidelines stated below. The following criteria are only guidelines.

All buildings belonging to institutions of public charity, including public hospitals and nursing homes licensed pursuant to section 23-16-01 under the control of religious or charitable institutions, used wholly or in part for public charity, together with the land actually occupied by such institutions not leased or otherwise used with a view to profit. The exemption provided by this subsection includes any dormitory, dwelling, or residential-type structure, together with necessary land on which such structure is located, owned by a religious or charitable organization recognized as tax exempt under section 501(c)(3) of the United States Internal Revenue Code which is occupied by members of said organization who are subject to a religious vow of poverty and devote and donate substantially all of their time to the religious or charitable activities of the owner.

Exemption criteria:

Property exempt if the qualified facility is used wholly or in part for public charity, together with the land occupied by such institutions not leased or otherwise used with a view to profit.

2016 Reduction in Taxes – Due to Agreements with Other Entities:

Total program reduction in taxes – \$45,440

Single Family Residence:

Single Family property owners are eligible for property tax incentives for the specified property that meet state requirements (NDCC 57-02-08(35)).

General Criteria -- Up to seventy-five thousand dollars of the true and full value of all new single-family and condominium and townhouse residential property, exclusive of the land on which it is situated, is exempt from taxation for the first two taxable years after the taxable year in which construction is completed and the residence is owned and occupied for the first time if all the following conditions are met:

- a. The governing body of the city, for property within city limits, or the governing body of the county, for property outside city limits, has approved the exemption of the property by resolution. A resolution adopted under this subsection may be rescinded or amended at any time. The governing body of the city or county may limit or impose conditions upon exemptions under this subsection, including limitations on the time during which an exemption is allowed.
- b. Special assessments and taxes on the property upon which the residence is situated are not delinquent.

2016 Reduction in Taxes – Due to Agreements with Other Entities:

Total Program Reduction in taxes – \$1,265

Renaissance Zone:

Under authority of the Renaissance Zone Act created by the North Dakota State Legislature as outlined in NDCC Chapter 40-63, any taxpaying entity in good standing with the State and the City may be eligible for tax incentives when they:

- Construct a new building within the Zone;
- Rehabilitate a building in the Zone;
- Buy a building or primary residence in the Zone and make significant improvements;
- Lease space in the Zone for a new or expanding business;
- Continue a lease in a building being rehabilitated as a Zone project.

The minimum level of investment to qualify as a Renaissance Zone Project varies based on the type of project. Designation as a Renaissance Zone Project is necessary to be eligible for any incentives. Potential projects must be approved by the Renaissance Zone Authority, City Commission and the North Dakota Department of Commerce/Division of Community Services prior to any work being started or any lease signed.

Incentives are in the form of 5-year property tax exemptions, 5-year state income tax exemptions, and historic tax credits. The tax incentives are offered primarily to stimulate new home and business construction, and to stimulate home and business improvements within city limits.

Current Residential or Commercial Property: If the owner makes all necessary improvements to eliminate poor conditions and meets a minimum capital investment requirement equal or greater than 20% of current true and full value of residential property and 50% of the current true and full value of commercial property, the City *may offer* a 5-year property tax exemption on structures only.

The City of Devils Lake had negotiated tax incentive agreements with the following individuals/entities as of December 31, 2016:

- Renaissance Zone: incentives of property taxes totaling \$20,124 for 5 individual taxpaying entities with 5-year, 100% property tax exemption that qualified under the current guidelines, as allowable under NDCC chapter 40-63 and approved as updated in city commission.
- New Industry Program: incentives of property taxes totaling \$22,022 for the commercial entities in the program for new industry with 100% tax exemption for 5 years.
- 2-Year Exemptions (individuals): incentives of property taxes totaling \$1,265 for the taxpayers under new residential property guidelines that elected the option to take the 2-year property tax exemption on the first \$75,000 true and full value of the home, as allowable under NDCC section 57-02-08 subsection 35 and approved as by city commission.

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 2,587,540	\$ 2,530,165	\$ 2,544,116	\$ 13,951
Licenses, Permits and Fees	105,000	84,442	84,441	(1)
Charges for Services	245,850	253,742	253,742	-
Intergovernmental	980,588	639,695	606,390	(33,305)
Fines, Forfeitures and Penalties	201,700	178,063	178,063	-
Interest	2,000	2,858	4,104	1,246
Miscellaneous	80,000	119,268	237,591	118,323
Total Revenues	\$ 4,202,678	\$ 3,808,233	\$ 3,908,447	\$ 100,214
<u>Expenditures:</u>				
Current:				
General Government	\$ 2,169,343	\$ 2,028,052	\$ 2,044,719	\$ (16,667)
Public Safety	2,493,084	2,521,757	2,484,519	37,238
Public Works	680,918	620,382	620,380	2
Health and Welfare	15,460	15,406	15,406	-
Culture & Recreation	27,100	27,100	27,100	-
Conservation of Natural Resources	45,871	50,770	50,769	1
Other	18,500	21,035	21,035	-
Debt Service:				
Principal	-	-	177,103	(177,103)
Interest	-	-	6,501	(6,501)
Total Expenditures	\$ 5,450,276	\$ 5,284,502	\$ 5,447,532	\$ (163,030)
Excess (Deficiency) of Revenues Over Expenditures	\$ (1,247,598)	\$ (1,476,269)	\$ (1,539,085)	\$ (62,816)
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 1,262,877	\$ 1,276,613	\$ 1,241,491	\$ (35,122)
Transfers Out	(86,251)	(81,709)	(28,043)	53,666
Total Other Financing Sources and Uses	\$ 1,176,626	\$ 1,194,904	\$ 1,213,448	\$ 18,544
Net Change in Fund Balances	\$ (70,972)	\$ (281,365)	\$ (325,637)	\$ (44,272)
Fund Balances - January 1	\$ 3,193,512	\$ 3,193,512	\$ 3,193,512	\$ -
Fund Balances - December 31	\$ 3,122,540	\$ 2,912,147	\$ 2,867,875	\$ (44,272)

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
LAKE REGION GROWTH FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest Income	\$ 2,000	\$ -	\$ -	\$ -
Miscellaneous	24,000	26,593	3,112	(23,481)
Total Revenues	\$ 26,000	\$ 26,593	\$ 3,112	\$ (23,481)
<u>Expenditures:</u>				
<u>Current:</u>				
Economic Development	\$ 213,084	\$ 438,355	\$ 366,137	\$ 72,218
Debt Service:				
Principal	-	-	36,827	(36,827)
Interest	-	-	11,077	(11,077)
Total Expenditures	\$ 213,084	\$ 438,355	\$ 414,041	\$ 24,314
Excess (Deficiency) of Revenues Over Expenditures	\$ (187,084)	\$ (411,762)	\$ (410,929)	\$ 833
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 245,000	\$ 255,664	\$ 255,664	\$ -
Transfers Out	(26,200)	(26,200)	(26,200)	-
Total Other Financing Sources and Uses	\$ 218,800	\$ 229,464	\$ 229,464	\$ -
<u>Special Item:</u>				
Loan Forgiveness	\$ -	\$ -	\$ (2,000,000)	\$ (2,000,000)
Net Change in Fund Balances	\$ 31,716	\$ (182,298)	\$ (2,181,465)	\$ (1,999,167)
Fund Balances - January 1	\$ 2,478,894	\$ 2,478,894	\$ 2,478,894	\$ -
Fund Balances - December 31	\$ 2,510,610	\$ 2,296,596	\$ 297,429	\$ (1,999,167)

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
EQUIPMENT RESERVE FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest Income	\$ 5,000	\$ 4,446	\$ 4,446	\$ -
<u>Expenditures:</u>				
Capital Outlay	\$ -	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 5,000	\$ 4,446	\$ 4,446	\$ -
<u>Other Financing Sources (Uses):</u>				
Transfers In	\$ 259,722	\$ 234,722	\$ 234,722	\$ -
Transfers Out	(234,000)	(207,500)	(207,500)	-
Total Other Financing Sources and Uses	\$ 25,722	\$ 27,222	\$ 27,222	\$ -
Net Change in Fund Balances	\$ 30,722	\$ 31,668	\$ 31,668	\$ -
Fund Balances - January 1	\$ 1,836,271	\$ 1,836,271	\$ 1,836,271	\$ -
Fund Balances - December 31	\$ 1,866,993	\$ 1,867,939	\$ 1,867,939	\$ -

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE
INFRASTRUCTURE FUND
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Sales Taxes	\$ 1,320,000	\$ 1,282,657	\$ 1,270,822	\$ (11,835)
<u>Expenditures:</u>				
<u>Current:</u>				
General Government	\$ -	\$ 14,086	\$ 49,542	\$ (35,456)
Public Works	850,000	312,211	312,212	(1)
Total Expenditures	\$ 850,000	\$ 326,297	\$ 361,754	\$ (35,457)
Excess (Deficiency) of Revenues Over Expenditures	\$ 470,000	\$ 956,360	\$ 909,068	\$ (47,292)
<u>Other Financing Sources (Uses):</u>				
Transfers Out	\$ (462,175)	\$ (1,255,612)	\$ (1,220,156)	\$ 35,456
Net Change in Fund Balances	\$ 7,825	\$ (299,252)	\$ (311,088)	\$ (11,836)
Fund Balances - January 1	\$ 1,104,241	\$ 1,104,241	\$ 1,104,241	\$ -
Fund Balances - December 31	\$ 1,112,066	\$ 804,989	\$ 793,153	\$ (11,836)

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

CITY OF DEVILS LAKE
Devils Lake, North Dakota

PENSION SCHEDULES
For the Year Ended December 31, 2016

**Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years***

Main System - Governmental	2016	2015	2014
District's proportion of the net pension liability (asset)	0.058519%	0.050013%	0.013663%
District's proportionate share of the net pension liability (asset)	\$ 570,323	\$ 340,079	\$ 86,720
District's covered-employee payroll	\$ 589,733	\$ 445,555	\$ 115,096
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

Law Enforcement System - Governmental	2016	2015	2014
District's proportion of the net pension liability (asset)	12.161879%	12.351133%	11.300387%
District's proportionate share of the net pension liability (asset)	\$ 7,790	\$ (14,455)	\$ (1,508)
District's covered-employee payroll	\$ 562,060	\$ 466,450	\$ 308,759
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.39%	-3.10%	-0.49%
Plan fiduciary net position as a percentage of the total pension liability	98.17%	104.37%	100.61%

Main System - Water	2016	2015	2014
District's proportion of the net pension liability (asset)	0.003160%	0.002701%	0.000738%
District's proportionate share of the net pension liability (asset)	\$ 30,798	\$ 18,365	\$ 4,683
District's covered-employee payroll	\$ 31,846	\$ 24,061	\$ 6,215
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

CITY OF DEVILS LAKE
Pension Schedules - Continued

Main System - Sewer	2016	2015	2014
District's proportion of the net pension liability (asset)	0.004676%	0.003997%	0.001092%
District's proportionate share of the net pension liability (asset)	\$ 45,576	\$ 27,177	\$ 6,930
District's covered-employee payroll	\$ 47,127	\$ 35,605	\$ 9,198
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

Main System - Sanitation	2016	2015	2014
District's proportion of the net pension liability (asset)	0.008791%	0.007513%	0.002052%
District's proportionate share of the net pension liability (asset)	\$ 85,675	\$ 51,087	\$ 13,027
District's covered-employee payroll	\$ 88,591	\$ 66,932	\$ 17,290
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

Main System - Airport	2016	2015	2014
District's proportion of the net pension liability (asset)	0.004027%	0.003442%	0.000940%
District's proportionate share of the net pension liability (asset)	\$ 39,246	\$ 23,402	\$ 5,967
District's covered-employee payroll	\$ 40,581	\$ 30,660	\$ 7,920
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

**Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years***

Main System - Governmental	2016	2015	2014
Statutorily required contribution	\$ 57,765	\$ 45,788	\$ 11,087
Contributions in relation to the statutorily required contribution	\$ 52,544	\$ 43,296	\$ 11,087
Contribution deficiency (excess)	\$ 5,221	\$ 2,492	\$ -
District's covered-employee payroll	\$ 797,879	\$ 602,813	\$ 155,719
Contributions as a percentage of covered-employee payroll	6.59%	7.60%	7.12%

CITY OF DEVILS LAKE

Pension Schedules - Continued

Law Enforcement System - Governmental	2016	2015	2014
Statutorily required contribution	\$ 61,155	\$ 51,705	\$ 24,485
Contributions in relation to the statutorily required contribution	\$ 61,054	\$ 56,615	\$ 24,485
Contribution deficiency (excess)	\$ 101	\$ (4,910)	\$ -
District's covered-employee payroll	\$ 562,060	\$ 466,450	\$ 308,759
Contributions as a percentage of covered-employee payroll	10.86%	11.08%	7.93%

Main System - Water	2016	2015	2014
Statutorily required contribution	\$ 2,306	\$ 1,828	\$ 443
Contributions in relation to the statutorily required contribution	\$ 2,097	\$ 1,728	\$ 443
Contribution deficiency (excess)	\$ 208	\$ 99	\$ -
District's covered-employee payroll	\$ 31,846	\$ 24,061	\$ 6,215
Contributions as a percentage of covered-employee payroll	6.59%	7.60%	7.12%

Main System -Sewer	2016	2015	2014
Statutorily required contribution	\$ 3,412	\$ 2,704	\$ 655
Contributions in relation to the statutorily required contribution	\$ 3,104	\$ 2,557	\$ 655
Contribution deficiency (excess)	\$ 308	\$ 147	\$ -
District's covered-employee payroll	\$ 47,127	\$ 35,605	\$ 9,198
Contributions as a percentage of covered-employee payroll	6.59%	7.60%	7.12%

Main System - Sanitation	2016	2015	2014
Statutorily required contribution	\$ 6,414	\$ 5,084	\$ 1,231
Contributions in relation to the statutorily required contribution	\$ 5,834	\$ 4,807	\$ 1,231
Contribution deficiency (excess)	\$ 580	\$ 277	\$ -
District's covered-employee payroll	\$ 88,591	\$ 66,932	\$ 17,290
Contributions as a percentage of covered-employee payroll	6.59%	7.60%	7.12%

Main System - Airport	2016	2015	2014
Statutorily required contribution	\$ 2,938	\$ 2,329	\$ 564
Contributions in relation to the statutorily required contribution	\$ 2,672	\$ 2,202	\$ 564
Contribution deficiency (excess)	\$ 266	\$ 127	\$ -
District's covered-employee payroll	\$ 40,581	\$ 30,660	\$ 7,920
Contributions as a percentage of covered-employee payroll	6.59%	7.60%	7.12%

*Complete data for this schedule is not available prior to 2014.

CITY OF DEVILS LAKE
Devils Lake, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
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Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP, and state law as outlined in various sections of North Dakota Century Code (NDCC) Chapter 40-40 for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- The governing body of each municipality, annually or before September tenth, shall make an itemized statement known as the preliminary budget statement showing the amounts of money which, in the opinion of the governing body, will be required for the proper maintenance, expansion, or improvement of the municipality during the year (NDCC 40-40-04).
- The preliminary budget must include a detailed breakdown of the estimated revenues and appropriations requested for the ensuing year for the general fund, each special revenue fund, and each debt service fund of the municipality. The revenue and expenditure items for the preceding year and estimates of the revenue and expenditures for the current year must be included for each fund to assist in determining the estimated revenues and appropriation requested for the ensuing year. The budget must also include any transfers in or out and the beginning and ending fund balance for each of the funds. The budget must be prepared on the same basis of accounting used by the municipality for its annual financial reports (NDCC 40-40-05).
- After the governing body has prepared the preliminary budget statement, the auditor of the municipality shall give notice that: the preliminary budget is on file in the office of the auditor and may be examined by anyone upon request; the governing body shall meet no later than October 7th at the time and place specified in the notice for the purpose of adopting the final budget and making the annual tax levy; and, the governing shall hold a public session at the time and place designated in the notice of the hearing at which any taxpayer may appear and discuss with the body any item of proposed expenditure or may object to any item or amount (NDCC 40-40-06).
- After the budget hearing, the final budget must be prepared on or before October 7th in accordance with provisions outlined in detail in NDCC 40-40-08.
- After completing the final budget on or before October 7th, the governing body shall proceed to make the annual tax levy in an amount sufficient to meet the expenses for the ensuing year as determined at the budget meeting (NDCC 40-40-09).
- Immediately after completion of the final budget and adoption of the annual tax levy by the governing body of a municipality in accordance with provisions, and in no case later than October 10th, the auditor of the municipality shall send to the county auditor a certified copy of the final budget (NDCC 40-40-10).

CITY OF DEVILS LAKE**Notes to the Required Supplementary Information - Continued**

- No municipal expenditure may be made nor liability incurred, and no bill may be paid for any purposes in excess of the appropriation made therefor in the final budget. Expenditures made liabilities incurred, or warrants issued in excess of the appropriations are a joint and several liability of the members of the governing body (NDCC 40-40-15).
- At the end of the fiscal year, the balance to credit of each annual appropriation becomes a part of the general unappropriated balance in the municipal treasury, but no special appropriation lapses until the work for which it was made has been completed, the bills paid, and the accounts closed. The governing body of a city may elect, at the end of the fiscal year, to carry over the unencumbered cash balance in the general fund or other budgeted funds and designate the balances for subsequent years (NDCC 40-40-21).

NOTE 2: LEGAL COMPLIANCE - BUDGETS**BUDGET AMENDMENTS**

The city's governing board approved the following amendments to the city budget:

	REVENUES/TRANSFERS IN		
	Original Budget	Budget Amendment	Amended Budget
<u>Major Funds:</u>			
General Fund	\$ 5,465,555	\$ (380,709)	\$ 5,084,846
Equipment Reserve	264,722	(25,554)	239,168
Lake Region Growth Fund	271,000	11,257	282,257
Infrastructure Fund	1,320,000	(37,343)	1,282,657
Debt Service Fund	1,364,044	122,581	1,486,625
Capital Projects Fund	-	824,178	824,178
<u>Non-Major Fund:</u>			
Total Non-Major Funds	1,344,600	(80,817)	1,263,783
<u>Internal Service Fund:</u>			
Self-Insurance	886,500	68,906	955,406

	EXPENDITURES/TRANSFERS OUT		
	Original Budget	Budget Amendment	Amended Budget
<u>Major Funds:</u>			
General Fund	\$ 5,536,527	\$ (170,316)	\$ 5,366,211
Equipment Reserve Fund	234,000	(26,500)	207,500
Lake Region Growth Fund	239,284	225,271	464,555
Infrastructure Fund	1,312,175	269,734	1,581,909
Debt Service Fund	1,302,284	247,449	1,549,733
Capital Projects Fund	-	3,636,818	3,636,818
<u>Non-Major Fund:</u>			
Total Non-Major Funds	1,357,492	43,918	1,401,410
<u>Internal Service Fund:</u>			
Self-Insurance	885,000	124,523	1,009,523

NOTE 3: PENSIONS - CHANGES OF ASSUMPTIONS

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)
For the Year Ended December 31, 2016

	Balance 1-1-16	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-16
GENERAL FUND	\$ 2,925,495.99	\$ 3,818,438.64	\$ 1,266,368.40	\$ -	\$ 28,042.66	\$ 5,338,167.88	\$ 2,644,092.49
<u>MAJOR SPECIAL REVENUE FUNDS:</u>							
LAKE REGION GROWTH	\$ 415,754.47	\$ 26,593.64	\$ 255,664.32	\$ -	\$ 26,200.00	\$ 413,354.51	\$ 258,457.92
EQUIPMENT RESERVE	1,836,270.95	4,446.18	234,722.00	-	207,500.00	-	1,867,939.13
INFRASTRUCTURE	1,029,565.25	1,282,657.31	-	-	1,220,155.74	361,753.54	730,313.28
TOTAL MAJOR SPECIAL REVENUE FUNDS	\$ 3,281,590.67	\$ 1,313,697.13	\$ 490,386.32	\$ -	\$ 1,453,855.74	\$ 775,108.05	\$ 2,856,710.33
<u>MAJOR CAPITAL PROJECTS FUNDS:</u>							
WATER SUPPLY CONSTRUCTION	\$ -	\$ 600.00	\$ 3,100.90	\$ -	\$ -	\$ 3,700.90	\$ -
FLOOD PROTECTION 1-96	(3,707,029.41)	4,402.13	-	-	60,044.97	225,219.11	(3,987,891.36)
SAFE ROUTE TO SCHOOL - 12TH AVE	(10,482.95)	6,850.69	-	-	-	-	(3,632.26)
FISHING PIERS	19,482.40	119,122.31	-	-	-	207,559.36	(68,954.65)
W, S, STR IMPR 51-11 - AGASSIZ PROP	75,041.54	-	-	-	45,522.09	29,519.45	-
W, S, STR IMPR #55-13 - WALMART	680,346.52	-	-	-	-	-	680,346.52
W, S, STR IMPR #48-13 - HIGHLAND	43,962.16	-	-	-	41,987.16	-	1,975.00
WATER & SEWER IMPR #59-14 - SMITH DR	(114,162.79)	-	117,207.67	-	390.27	2,654.61	-
W, S, STR IMPR #60-15 - CENEX	1,782,161.20	-	-	-	-	1,700,537.04	81,624.16
SEWER IMPR #13-15 - 2ND ST NE	(32,851.78)	-	34,863.51	-	239.46	1,772.27	-
WATER & SEWER IMPR - 16TH ST SE	-	-	28,987.22	-	6,873.24	22,113.98	-
WATERMAIN IMPR 24-15 - VARIOUS	665,488.33	-	-	-	86,443.84	540,273.98	38,770.51
2015 CURB, GUTTER & SIDEWALK	-	-	130.24	-	-	130.24	-
2016 CURB, GUTTER & SIDEWALK	-	828.42	89,871.48	-	-	90,699.90	-
STR IMPR 47-13 - 16TH ST SE	(161.66)	-	161.66	-	-	-	-
STR IMPR 51-13 - 5TH ST SE	-	-	1,755.52	-	-	1,755.52	-
STR IMPR 58-15 - 16TH & 17TH St SE	(112.64)	-	27,014.54	-	24,840.96	155,255.95	(153,195.01)
STR IMPR 59-16 - SEALCOAT	-	-	389,281.15	-	-	389,281.15	-
OFF BOOK ACCOUNT- BND (LEEVE ESCROW)	2,733,469.61	-	-	-	-	524,247.16	2,209,222.45
TOTAL MAJOR CAPITAL PROJECTS FUNDS	\$ 2,135,150.53	\$ 131,803.55	\$ 692,373.89	\$ -	\$ 266,341.99	\$ 3,894,720.62	\$ (1,201,734.64)
<u>MAJOR DEBT SERVICE FUNDS:</u>							
CITY SHARE SPECIAL ASSESSMENT	\$ 33,720.09	\$ 64,817.64	\$ -	\$ -	\$ 85,095.00	\$ -	\$ 13,442.73
SPECIAL ASSESSMENT CITY PROPERTY	12,502.95	104.16	-	-	-	2,360.15	10,246.96
PENALTY & INTEREST SPECIAL ASSMT	53,299.79	1,683.54	-	-	10,000.00	-	44,983.33
SPECIAL ASSESSMENT DEFICIENCY	68,903.32	604.99	-	-	20,000.00	-	49,508.31
NON-BONDED DEBT SERVICE	30,589.72	59,739.81	-	-	67,393.15	20,185.00	2,751.38
SEWER SEPARATION #1	110,452.11	1,095.62	-	-	-	18,222.50	93,325.23
SALES TAX REV BONDS 2010	130,610.85	160,332.19	56,000.00	-	-	172,400.00	174,543.04
REF IMP BONDS 2010	89,620.26	62,765.40	180,907.00	-	-	243,354.00	89,938.66
REF IMP BONDS 2011	272,297.40	253,610.12	309,226.22	-	-	419,075.00	416,058.74
REF IMP BONDS 2012	104,055.03	45,240.73	47,669.00	-	-	113,840.00	83,124.76
REF IMP BONDS 2014	307,188.90	117,051.63	125,776.16	-	-	238,235.00	311,781.69
SALES TAX REV BONDS 2015	405,648.75	-	-	-	-	86,781.76	318,866.99
REF IMP BONDS 2015	80,028.85	-	-	-	-	52,791.29	27,237.56
TOTAL MAJOR DEBT SERVICE FUNDS	\$ 1,698,918.02	\$ 767,045.83	\$ 719,578.38	\$ -	\$ 182,488.15	\$ 1,367,244.70	\$ 1,635,809.38
TOTAL MAJOR FUNDS	\$ 10,041,155.21	\$ 6,030,985.15	\$ 3,168,706.99	\$ -	\$ 1,930,728.54	\$ 11,375,241.25	\$ 5,934,877.56
<u>NONMAJOR SPECIAL REVENUE FUNDS:</u>							
HIGHWAY DISTRIBUTION	\$ 204,262.51	\$ 349,314.48	\$ 75,220.83	\$ -	\$ 50,000.00	\$ 449,821.69	\$ 128,976.13
EMERGENCY	59,142.42	-	-	-	25,000.00	-	34,142.42
CEMETERY	172,149.14	104,449.96	5,225.00	-	18,994.88	99,808.30	163,020.92
TEMPORARY EMPLOYEES FUND	-	-	62,835.86	-	-	62,835.86	-
ECONOMIC DEVELOPMENT	-	320,664.32	-	-	255,664.32	65,000.00	-
FIRE DEPT. HOMELAND SECURITY GRANT	-	16,681.48	-	-	-	16,421.48	260.00
ASSET FORFEITURE BUY FUND	2,814.99	-	-	-	-	-	2,814.99
ND DOT POLICE GRANTS	-	9,485.77	-	-	-	9,485.77	-
LIBRARY	93,034.29	196,943.51	-	-	1,605.13	209,232.01	79,140.66
PARKING AUTHORITY	40,931.96	22,248.64	-	-	1,200.00	38,088.90	23,891.70
CITY BEAUTIFICATION	13,530.14	1,000.00	20,000.00	-	1,651.72	12,170.83	20,707.59
DL HISTORICAL PRESERVATION	5,266.79	-	-	-	-	-	5,266.79
JOB DEVELOPMENT AUTHORITY	45,834.47	45,229.98	-	-	1,200.00	45,480.00	44,384.45
SAAF GRANT	-	11,278.42	-	-	-	11,278.42	-
AIRPORT HANGER	6,262.26	8,205.00	15,000.00	-	24,878.58	1,592.84	2,995.84
TOTAL NONMAJOR SPECIAL REVENUE FUNDS	\$ 643,228.97	\$ 1,085,501.56	\$ 178,281.69	\$ -	\$ 380,194.63	\$ 1,021,216.10	\$ 505,601.49
TOTAL GOVERNMENTAL FUNDS	\$ 10,684,384.18	\$ 7,116,486.71	\$ 3,346,988.68	\$ -	\$ 2,310,923.17	\$ 12,396,457.35	\$ 6,440,479.05
<u>INTERNAL SERVICE FUND:</u>							
SELF INSURANCE	\$ 424,933.16	\$ 955,405.07	\$ -	\$ -	\$ -	\$ 1,009,523.34	\$ 370,814.89
<u>ENTERPRISE FUNDS:</u>							
<u>MAJOR ENTERPRISE FUNDS:</u>							
WATER	\$ 317,953.99	\$ 820,740.97	\$ 72,000.00	\$ -	\$ 296,931.18	\$ 611,329.10	\$ 302,434.68
WATER SOURCE REPLACEMENT	171,479.11	270,263.45	102,000.00	-	-	250,450.00	293,292.56
SEWER	578,400.51	1,013,500.76	-	-	376,039.58	776,021.02	439,840.67
SANITATION	693,546.31	1,787,130.59	100.00	-	537,194.75	1,227,235.47	716,346.68
TOTAL MAJOR BUSINESS-TYPE FUNDS	\$ 1,761,379.92	\$ 3,891,635.77	\$ 174,100.00	\$ -	\$ 1,210,165.51	\$ 2,865,035.59	\$ 1,751,914.59

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CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF FUND ACTIVITY (CLIENT BASIS)
For the Year Ended December 31, 2016

	Balance 1-1-16	Revenues	Transfers In	Other Fin. Sources	Transfers Out	Expenditures	Balance 12-31-16
CONTINUED.....							
<u>NONMAJOR ENTERPRISE FUNDS:</u>							
LANDFILL CLOSURE	\$ 8,460.55	\$ 12.00	\$ -	\$ -	\$ -	\$ -	\$ 8,472.55
TOTAL ENTERPRISE FUNDS	\$ 1,769,840.47	\$ 3,891,647.77	\$ 174,100.00	\$ -	\$ 1,210,165.51	\$ 2,865,035.59	\$ 1,760,387.14
<u>AGENCY FUNDS:</u>							
LAKE REGION NARCOTICS TASK FORCE	\$ 44,067.54	\$ 101,922.32	\$ -	\$ -	\$ -	\$ 101,878.50	\$ 44,111.36
TOTAL PRIMARY GOVERNMENT	\$ 12,923,225.35	\$ 12,065,461.87	\$ 3,521,088.68	\$ -	\$ 3,521,088.68	\$ 16,372,894.78	\$ 8,615,792.44
<u>COMPONENT UNIT:</u>							
DEVILS LAKE AIRPORT AUTHORITY	\$ 97,661.08	\$ 677,390.79	\$ -	\$ -	\$ -	\$ 1,081,474.99	\$ (306,423.12)
TOTAL REPORTING ENTITY	\$ 13,020,886.43	\$ 12,742,852.66	\$ 3,521,088.68	\$ -	\$ 3,521,088.68	\$ 17,454,369.77	\$ 8,309,369.32

STATE AUDITOR

JOSHUA C. GALLION
Phone (701) 328-2241



Local Government Division:
FARGO OFFICE
MANAGER – DAVID MIX
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

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

Independent Auditor's Report

City Commission
City of Devils Lake
Devils Lake, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Devils Lake as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Devils Lake's basic financial statements, and have issued our report thereon dated August 24, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

CITY OF DEVILS LAKE

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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

/S/

Joshua C. Gallion
State Auditor

Fargo, North Dakota
August 24, 2017

CITY OF DEVILS LAKE
Devils Lake, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?	
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Unit	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal control over financial reporting:

Material weaknesses Identified? _____ Yes X None noted

Significant deficiencies identified not considered
to be material weaknesses? _____ Yes X None noted

Noncompliance material to financial statements
noted? _____ Yes X None noted

Section II - Financial Statement Findings

No matters were reported.

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