

CITY OF DRAKE  
DRAKE, NORTH DAKOTA

FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

City of Drake  
Table of Contents

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	Page
	-----
City Officials	1
Independent Auditor's Report	2-3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	4
Statement of Activities	5
Balance Sheet- Governmental Funds	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds	8
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Assets- Proprietary Funds	10
Statement of activities- Proprietary Funds	11
Statement of Cash Flows	12
Notes to Combined Financial Statement	13-24
SUPPLEMENTARY FINANCIAL INFORMATION	
Schedule of Activity	25

CITY OF DRAKE  
LIST OF OFFICIALS  
DECEMBER 31, 2016

CITY COUNCIL

Office

Bruce Thorson  
Jacqueline Richter  
Bob Isaak  
Sarah Soderberg  
Derek Nickelson

Mayor

EMPLOYEES

Sharon Toy

City Auditor

# Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

City Council  
City of Drake  
Drake, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of City of Drake 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Drake as of December 31, 2016, and the changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in accordance with the basis of accounting described in Note 1.

**Basis of Accounting**

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to that matter.

**Other Matters**

Management has omitted the management discussion and analysis and budgetary comparison information 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. My opinion on the basic financial statements is not affected by this missing information.


**Other Information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Drake's basic financial statements. The Schedule of Activity is presented for purposes of additional analysis and is not a required part of the basis financial statements.

The Schedule of Activity is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basis 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 my opinion, the Schedule of Activity is fairly stated, in all material respects, in relation to the basis financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued reports dated October 31, 2017, on my considerations of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



West Fargo, North Dakota  
October 31, 2017

405 West Main Avenue Box 816 West Fargo, ND 58078 Phone (701)281-0483 Cell 212-3908

CITY OF DRAKE  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents and investments	250,308.10	126,573.05	376,881.15
Non-current assets:			
Capital assets (net of accumulated depreciation)	1,400,599.53	35,172.23	1,435,771.76
Total Assets	1,650,907.63	161,745.28	1,812,652.91
<b>LIABILITIES</b>			
Current liabilities:			
Accounts Payable			-
Non-current liabilities:			
Due within one year:			-
Bonds payable	27,760.00		27,760.00
Notes payable	-		-
Due after one year:			-
Bonds payable	499,680.00		499,680.00
Notes payable	-		-
Total liabilities	527,440.00	-	527,440.00
<b>NET POSITION</b>			
Net investment in capital assets	873,159.53	35,172.23	908,331.76
Restricted for:			-
Capital projects			-
Debt service	191,695.01		191,695.01
Unrestricted	58,613.09	126,573.05	185,186.14
Total Net Position	1,123,467.63	161,745.28	1,285,212.91

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

CITY OF DRAKE  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2016

		Program Revenues		Revenue & Changes in Net Position
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities
Governmental activities:				
General government	46,792.42			(46,792.42)
Public safety	7,951.11			(7,951.11)
Highways and streets	166,765.00		-	(166,765.00)
Economic development	1,087.64			(1,087.64)
Capital outlays	23,835.35			(23,835.35)
Interest expense	23,596.00			(23,596.00)
Total Governmental Activities	270,027.52	-	-	(270,027.52)
Business-type activities				
Water	59,037.41	61,764.12		2,726.71
Sewer	21,340.16	16,852.73		(4,487.43)
Garbage	36,589.45	34,212.28		(2,377.17)
Landfill	584.35	-		(584.35)
Health services	9,436.50	3,390.70		(6,045.80)
Total Business-type activities	126,987.87	116,219.83	-	(10,768.04)
Total	397,015.39	116,219.83	-	(280,795.56)
Net expense		Governmental (270,027.52)	Business-type (10,768.04)	Total (280,795.56)
General Revenues				
Taxes:				
Property taxes		22,510.62		22,510.62
Sales taxes		52,319.35		52,319.35
Special assessments		49,656.21		49,656.21
Licenses and permits		4,721.06		4,721.06
Intergovernmental		51,275.51		51,275.51
Interest income		2,464.48	-	2,464.48
Other revenue		31,763.96	1,756.02	33,519.98
Bond proceeds		-		-
Total General Revenues		214,711.19	1,756.02	216,467.21
Transfers in (out)		(6,100.00)	6,100.00	-
Change in Net Position		(61,416.33)	(2,912.02)	(64,328.35)
Net Position- January 1		1,184,883.96	164,657.30	1,349,541.26
Net Position- December 31		1,123,467.63	161,745.28	1,285,212.91

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

CITY OF DRAKE  
BALANCE SHEET- GOVERNMENTAL FUNDS  
DECEMBER 31, 2016

	GENERAL	WATERMAIN IMPROVEMENT	HIGHWAY DISTRIBUTION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>					
Cash and investments	59,443.55	192,321.14	4,505.12	(5,961.71)	250,308.10
Total Assets	59,443.55	192,321.14	4,505.12	(5,961.71)	250,308.10
 <b>LIABILITIES</b>					
Accounts Payable					-
Total liabilities	-	-	-	-	-
 <b>NET POSITION</b>					
Restricted for Capital Projects					-
Restricted for Debt Service		192,321.14		-	192,321.14
Restricted for other purposes			4,505.12	85,462.73	89,967.85
Unassigned	59,443.55			(91,424.44)	(31,980.89)
Total Net Position	59,443.55	192,321.14	4,505.12	(5,961.71)	250,308.10

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



CITY OF DRAKE  
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE  
 SHEET TO THE STATEMENT OF NET POSITION  
 DECEMBER 31, 2016

Total Fund Balances for Governmental Funds	250,308.10
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of capital assets	2,444,285.64	
Less accumulated depreciation	1,043,686.11	
Net capital assets		1,400,599.53

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities- both current and long-term are reported in the statement of net position. Balances at year end are:

Bonds payable	(527,440.00)
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Total Net Position of Governmental Activities	1,123,467.63
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The accompanying notes are an integral part of these financial statements.

CITY OF DRAKE  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2016

	GENERAL	WATERMAIN IMPROVEMENT	HIGHWAY DISTRIBUTION	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	20,582.12			1,928.50	22,510.62
Sales taxes	-			52,319.35	52,319.35
Special Assessments		49,656.21			49,656.21
Intergovernmental	23,510.69		27,323.19	441.63	51,275.51
Interest	138.56	2,325.92	-	-	2,464.48
Charges for services				15,598.51	15,598.51
Other	8,689.96		670.95	11,525.60	20,886.51
<b>Total Revenues</b>	<b>52,921.33</b>	<b>51,982.13</b>	<b>27,994.14</b>	<b>81,813.59</b>	<b>214,711.19</b>
<b>Current:</b>					
General government	45,445.38			1,347.04	46,792.42
Public safety	-			7,951.11	7,951.11
Highways and streets			105,650.47		105,650.47
Economic development				1,087.64	1,087.64
Capital outlays				37,436.16	37,436.16
Debt Service					
Principal		27,760.00		-	27,760.00
Interest expense		23,596.00		-	23,596.00
<b>Total Expenditures</b>	<b>45,445.38</b>	<b>51,356.00</b>	<b>105,650.47</b>	<b>47,821.95</b>	<b>250,273.80</b>
Excess revenues (expenditures)	7,475.95	626.13	(77,656.33)	33,991.64	(35,562.61)
<b>Other Financing Sources (Uses):</b>					
Transfers in	1,804.92	-	40,000.00	(0.00)	41,804.92
Transfers out	(6,100.00)			(41,804.92)	(47,904.92)
Bond proceeds				-	-
<b>Total other financing sources and u</b>	<b>(4,295.08)</b>	<b>-</b>	<b>40,000.00</b>	<b>(41,804.92)</b>	<b>(6,100.00)</b>
<b>Net change in fund balances</b>	<b>3,180.87</b>	<b>626.13</b>	<b>(37,656.33)</b>	<b>(7,813.28)</b>	<b>(41,662.61)</b>
Fund Balance- January 1	56,262.68	191,695.01	42,161.45	1,851.57	291,970.71
Fund Balance- December 31	59,443.55	192,321.14	4,505.12	(5,961.71)	250,308.10

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

CITY OF DRAKE  
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2016

Net Change in Fund Balances- Total Governmental Funds (41,662.61)

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

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

Current year capital outlay	13,600.81	
Current year depreciation expense	61,114.53	(47,513.72)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	27,760.00	-
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Change in Net Position of Governmental Activities (61,416.33)

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

CITY OF DRAKE  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016

	Water & Sewer	Sanitation	Total
<b>ASSETS</b>			
Current assets:			
Cash, cash equivalents and investments	124,808.34	1,764.71	126,573.05
Non-current assets:			
Capital assets (net of accumulated depreciation)	35,172.23		35,172.23
<b>Total Assets</b>	<b>159,980.57</b>	<b>1,764.71</b>	<b>161,745.28</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts Payable			-
Non-current liabilities:			
Due within one year:			
Bonds payable			-
Notes payable			-
Due after one year:			
Bonds payable			-
Notes payable			-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>			
Net investment in capital assets	35,172.23		35,172.23
Restricted for:			
Capital projects			-
Debt service			-
Unrestricted	124,808.34	1,764.71	126,573.05
<b>Total Net Position</b>	<b>159,980.57</b>	<b>1,764.71</b>	<b>161,745.28</b>

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

CITY OF DRAKE  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016

	Water & Sewer	Sanitation	Total
<b>OPERATING REVENUE</b>			
Charges for services	82,007.55	34,212.28	116,219.83
<b>OPERATING EXPENSES</b>			
Salaries	26,725.37		26,725.37
Telephone	1,849.76		1,849.76
Professional fees	515.00		515.00
Insurance	-		-
Contract services	-	36,544.50	36,544.50
Electricity	8,773.95		8,773.95
Supplies	19,838.29	-	19,838.29
Repairs and maintenance	16,741.65		16,741.65
Office expense	-		-
Purchased services	2,116.84	44.95	2,161.79
Depreciation	13,837.56		13,837.56
Total operating expenses	90,398.42	36,589.45	126,987.87
Operating income (loss)	(8,390.87)	(2,377.17)	(10,768.04)
<b>NON-OPERATING REVENUE (EXPENSE)</b>			
Property taxes	-		-
Interest income	-		-
Grant income	-		-
Interest expense	-		-
Capital outlay	-		-
Other	555.07	1,200.95	1,756.02
Total non-operating rev (exp)	555.07	1,200.95	1,756.02
Income (loss) before transfers	(7,835.80)	(1,176.22)	(9,012.02)
Transfers in	6,100.00	-	6,100.00
Transfers out	-		-
Change in Net Position	(1,735.80)	(1,176.22)	(2,912.02)
Net Position- January 1	161,716.37	2,940.93	164,657.30
Net Position- December 31	159,980.57	1,764.71	161,745.28

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

CITY OF DRAKE  
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS  
PROPIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2016

	Water & Sewer	Sanitation	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	82,007.55	34,212.28	116,219.83
Payments to suppliers	(49,835.49)	(36,589.45)	(86,424.94)
Payments to employees	(26,725.37)	-	(26,725.37)
Other receipts	555.07	1,200.95	1,756.02
Net cash provided by (used in) operating activities	6,001.76	(1,176.22)	4,825.54
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	6,100.00	-	6,100.00
Transfers from other funds	-	-	-
Net cash provided by (used in) noncapital financing activities	6,100.00	-	6,100.00
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(39,080.26)	-	(39,080.26)
Principal paid on capital debt	-	-	-
Interest paid on capital debt	-	-	-
Debt proceeds	-	-	-
Net cash provided by (used in) capital and related financing activities	(39,080.26)	-	(39,080.26)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	-	-	-
Net cash provided by (used in) investing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(26,978.50)	(1,176.22)	(28,154.72)
Balance- beginning of year	151,786.84	2,940.93	154,727.77
Balance- end of year	124,808.34	1,764.71	126,573.05
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	(8,390.87)	(2,377.17)	(10,768.04)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	13,837.56	-	13,837.56
Miscellaneous receipts (expense)	555.07	1,200.95	1,756.02
Net cash provided by operating activities	6,001.76	(1,176.22)	4,825.54

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

CITY OF DRAKE  
DRAKE, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Drake (City) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the City. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Based on these criteria, there are no component units.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets and the statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. 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 for goods or services.

CITY OF DRAKE  
Notes to Financial Statements- Continued

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

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary. The City currently has no fiduciary funds.

The City reports the following fund types:

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

Watermain improvement fund. The Watermain improvement fund is used to account for the activity related to the watermain replacement project.

Highway Distribution Fund. The Highway Distribution fund is used to account for activity related to the maintenance of the City streets.

The City reports the following major enterprise funds:

Water and sewer- accounts for operating activities of the City's water and sewer utility services.

Sanitation- accounts for operating activities of the City's sanitation services



CITY OF DRAKE  
Notes to Financial Statements- Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

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

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

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

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

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

CITY OF DRAKE  
Notes to Financial Statements- Continued

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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.

D. Budgets

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

City taxes must be levied by the governing board on or before October 7. The taxes levied must be certified to the County auditor by October 10. The governing body of the City may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the County auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

CITY OF DRAKE  
Notes to Financial Statements- Continued

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Net estimated historical cost was used to value the majority of assets acquired prior to January 1, 2003. Prior to January 1, 2003, governmental funds' infrastructure assets were not capitalized. 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 of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

ASSETS	YEARS
Permanent Buildings	50
Vehicles and equipment	10

G. Long-Term Obligations

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

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

CITY OF DRAKE  
Notes to Financial Statements- Continued

H. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

**Restricted** - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council-the City's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the council removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** - This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

**Unassigned** - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

CITY OF DRAKE  
Notes to Financial Statements- Continued

When both restricted and unrestricted resources are available for use, the City's preference is to first use restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order as needed.

The council has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

I. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council did not amend the City budget for 2016

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets. No remedial action is required.

CITY OF DRAKE  
Notes to Financial Statements- Continued

NOTE 3 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial 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 deposit not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any City, 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.

At December 31, 2016, the City's carrying amount of deposits was \$376,881. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$126,881 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

CITY OF DRAKE  
Notes to Financial Statements- Continued

Concentration of Credit Risk

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

NOTE 4: PROPERTY TAXES

Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

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

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

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

NOTE 5: DEFICIT FUND BALANCE

The City has a \$86,429 deficit in the Store Building Fund. The deficit will be eliminated with rental income and transfers.

CITY OF DRAKE  
Notes to Financial Statements- Continued

NOTE 6: CAPITAL ASSETS

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

	Balance Jan 1	Increases	Decreases	Balance December 31
Capital assets not being depreciated				
Construction in progress				
Capital assets, being depreciated				
Infrastructure	1,493,708			1,493,708
Bldgs and Improvements	847,608	13,601		861,209
Vehicles & Equipment	89,368			89,368
Total	2,430,685	13,601		2,444,286
Less accumulated depreciation for:				
Infrastructure	410,773	37,343		448,116
Buildings & Improve	538,342	14,246		552,588
Vehicles & Equip	33,456	9,525		42,982
Total Accumulated Dep	982,572	61,114		1,043,686
Total Cap Assets Being Depreciated, Net	1,448,113			1,400,600
Total net	1,448,113			1,400,600

Business-type activities:

Capital assets, being depreciated				
Bldgs and Improvements	403,960			403,960
Vehicles & Equipment	59,571	39,080		98,651
Total	463,531	39,080		502,611
Less accumulated depreciation for:				
Buildings & Improve	394,030	9,930		403,960
Vehicles & Equipment	59,571	3,908		63,479
Total	453,601	13,838		467,439
Total Cap Assets Being Depreciated, Net	9,930			35,172
Total net	9,930			35,172

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

Governmental Activities:	
Highways and streets	61,114
Business-type Activities:	
Water and sewer	13,838



CITY OF DRAKE  
Notes to Financial Statements- Continued

NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2016, the following changes occurred in liabilities reported in long-term debt:

	Payable 2015	Increases	Decreases	Payable 2016	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable	555,200		27,760	527,440	27,760
Notes payable					
TOTAL	555,200		27,760	527,440	

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
Refunding imp- 2015	09/01/2035	4.25%	527,440

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Special Assessment bonds are paid directly from debt service sinking funds. Special assessments are certified annually in amounts sufficient to pay debt service requirements. Whenever all special assessments appropriated and collected for a special assessment district are insufficient to pay principal and interest then due on special assessment improvement bonds issued against such improvement district, the city is required to levy a deficiency levy upon all taxable property in the City.

The annual long-term debt service requirements for bonds payable, as of December 31, 2016, are as follows:

GOVERNMENTAL ACTIVITIES		
Year Ending December 31	Bonds Payable	
	Principal	Interest
2017	27,760	22,416
2018	27,760	21,236
2019	27,760	20,057
2020	27,760	18,877
2021	27,760	17,697
2022-2026	138,800	70,788
2027-2031	138,800	41,293
2032-2036	111,040	11,798
TOTAL	527,440	224,162

CITY OF DRAKE  
Notes to Financial Statements- Continued

NOTE 8. FUND BALANCE

Fund equity in the various funds has been restricted for the following purposes:

Restricted for Debt Service      \$146,695

NOTE 9: TRANSFERS

The City transfers operating revenues between funds. The City transferred from the General fund to Social security fund- \$1,500. The City transferred from the General to Infrastructure Fund- \$31,504. The City transferred from the General fund to the Garbage Fund- \$2,000.

NOTE 9: RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

CITY OF DRAKE  
 FUND EQUITY  
 DECEMBER 31, 2016

FUND	BEGINNING BALANCE	REVENUE	EXPENSE	TRANSFERS IN(OUT)	ENDING BALANCE
	-----	-----	-----	-----	-----
100 GENERAL	56,262.68	52,921.33	45,445.38	(4,295.08)	59,443.55
201 HIGHWAY DISTRIBUTIO	42,161.45	27,994.14	105,650.47	40,000.00	4,505.12
202 SOCIAL SECURITY	804.92	-	-	(804.92)	0.00
208 CEMETERY	291.22	1,331.57	393.89		1,228.90
211 INSURANCE RESERVE	1,000.00			(1,000.00)	-
300 DEBT SERVICE	146,695.01	51,982.13	51,356.00		147,321.14
400 FIRE DEPT RESERVE	16,590.11	10,446.27	7,951.11		19,085.27
401 INFRASTRUCTURE	75,350.07	60,311.59	37,436.16	(40,000.00)	58,225.50
501 WATER	79,066.97	62,319.19	71,429.85		69,956.31
502 SEWER	66,604.56	16,852.73	34,190.42		49,266.87
503 GARBAGE	2,940.93	35,413.23	36,589.45		1,764.71
504 METER	-				-
505 LANDFILL	1,392.64		584.35		808.29
506 HEALTH SERVICE	4,722.67	3,390.70	9,436.50	6,100.00	4,776.87
701 LIBRARY	(152.67)	1,116.93	128.25		836.01
703 STORE BUILDING	(93,501.77)	8,160.00	1,087.64		(86,429.41)
704 PARK	1,469.69	447.23	824.90		1,092.02
USDA RESERVE	45,000.00				45,000.00
GROCERY STORE	-				-
	-----	-----	-----	-----	-----
	446,698.48	332,687.04	402,504.37	-	376,881.15

**CITY OF DRAKE**

**REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**DECEMBER 31, 2016**

City of Drake  
Table of Contents

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	Page
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	1-2
Schedule of Findings and Responses	3-4

# Harold J. Rotunda

## Certified Public Accountant

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

### Independent Auditor's Report

City Council  
City of Drake  
Drake, North Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Drake as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated October 31, 2017.

#### **Internal Control Over Financial Reporting**

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify one deficiency in internal control, described in the accompanying schedule of findings that I consider to be a significant deficiency (2016-1).

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Drake's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

#### **City's Response to Findings**

City of Drake's response to the finding identified in my audit is described in the accompanying schedule of findings. City of Drake's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of my 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.



Harold Rotunda, CPA  
October 31, 2017

CITY OF DRAKE  
 SCHEDULE OF FINDINGS AND RESPONSES  
 FOR THE YEAR ENDED DECEMBER 31, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities	Unmodified
Major Funds	Unmodified
Aggregate Remaining Fund Information	Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	___X___	No
Significant deficiencies identified not Considered to be material weaknesses?	___X___	Yes	_____	No
Noncompliance material to financial statements Noted?	_____	Yes	___X___	No

Section II- Financial Statement Findings

Finding No. 2016-1

Condition

The limited number of staff prevents a proper segregation of duties.

Criteria

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect

Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.



CITY OF DRAKE  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Recommendation

While I recognize that the City office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the City.

Client Response

At the present time, the City has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.