



Financial Statements
December 31, 2012, 2011, and 2010
City of Dunseith

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Honorable Mayor, City Council and City Auditor
City of Dunseith, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunseith, North Dakota, as of and for the years ended December 31, 2012, 2011, and 2010, 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 cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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.

Basis for Disclaimer of Opinion on Statement of Net Position and Statement of Activities for Business-Type Activities and Statement of Net Position, Statement of Changes in Net Position and Statement of Cash Flow for Proprietary Funds

Because of the inadequacy of the accounting records for the major proprietary fund revenues, we were unable to form an opinion regarding the amounts at which these revenues are recorded and the allocation among the water, sewer and garbage funds in the accompanying statement of net position, statement of changes in net position and statement of cash flows for the years ending December 31, 2012, 2011, and 2010, for the business-type activities in the government-wide statements and the proprietary fund financial statements.

Disclaimer of Opinion on Statement of Net Position and Statement of Activities for Business-Type Activities and Statement of Net Position, Statement of Changes in Net Position and Statement of Cash Flow for Proprietary Funds

In our opinion, because of the significance of the matters discussed in the “Basis for Disclaimer of Opinion on Statement of Net Position and Statement of Activities for Business-Type Activities and Statement of Net Position, Statement of Changes in Net Position and Statement of Cash Flows for Propriety Funds” paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Statement of Net Position and Statement of Activities for the Business-Type Activities and Statement of Net Position, Statement of Changes in Net Position and Statement of Cash Flows for Propriety Funds for each major proprietary fund and for the business-type activities in the government-wide statements for the years ended December 31, 2012, 2011, and 2010.

Basis for Adverse Opinion on Business-Type Activities

The financial statements do not include financial data for the Nursing Home, the City’s legally separate, blended component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the City’s primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The effect of this departure is not reasonably determinable.

Adverse Opinion on Business-Type Activities

In our opinion, because of the significance of the matters discussed in the “Basis for Adverse Opinion on Business-Type Activities” paragraph, the financial statements referred to previously do not present fairly the respective financial position of the business-type activities of the City of Dunseith, as of December 31, 2012, 2011, and 2010, or the respective changes in financial position or the cash flows thereof for the years then ended in conformity with the cash basis of accounting.

Unmodified Opinions

In our opinion, the government-wide government type activities and the governmental fund financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and aggregate remaining fund information of the City of Dunseith, North Dakota as of December 31, 2012, 2011, and 2010, and the respective changes in financial position, thereof, for the years then ended in conformity with the cash basis of accounting.

Basis of Accounting

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

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2010. As discussed in Note 10 to the financial statements, the City presented a retroactive restatement of the previously reported fund balances.

Other Matters**Disclaimer of Opinion on Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunseith, North Dakota's financial statements. The management's discussion and analysis and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2014, on our consideration of City of Dunseith, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Dunseith's internal control over financial reporting and compliance.



Bismarck, North Dakota
September 29, 2014

City of Dunseith
Statement of Net Position – Cash Basis
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 811,916	\$ 7,863	\$ 819,779
Internal balances	13,200	(13,200)	-
Total Assets	<u>\$ 825,116</u>	<u>\$ (5,337)</u>	<u>\$ 819,779</u>
Net Position			
Restricted for special purposes	\$ 520,659	\$ -	\$ 520,659
Unrestricted	304,457	(5,337)	299,120
Total net position	<u>\$ 825,116</u>	<u>\$ (5,337)</u>	<u>\$ 819,779</u>

City of Dunseith
Statement of Net Position – Cash Basis
December 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 659,094	\$ -	\$ 659,094
Internal balances	11,512	(11,512)	-
Total Assets	<u>\$ 670,606</u>	<u>\$ (11,512)</u>	<u>\$ 659,094</u>
Net Position			
Restricted for special purposes	\$ 438,448	\$ -	\$ 438,448
Unrestricted	232,158	(11,512)	220,646
Total net position	<u>\$ 670,606</u>	<u>\$ (11,512)</u>	<u>\$ 659,094</u>

City of Dunseith
Statement of Net Position – Cash Basis
December 31, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 583,203	\$ -	\$ 583,203
Internal balances	9,010	(9,010)	-
Total Assets	<u>\$ 592,213</u>	<u>\$ (9,010)</u>	<u>\$ 583,203</u>
Net Position			
Restricted for special purposes	\$ 388,812	\$ -	\$ 388,812
Unrestricted	203,401	(9,010)	194,391
Total net position	<u>\$ 592,213</u>	<u>\$ (9,010)</u>	<u>\$ 583,203</u>

City of Dunseith
Statement of Activities – Cash Basis
Year Ended December 31, 2012

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 173,719	\$ -	\$ -	\$ -	\$ (173,719)	\$ -	\$ (173,719)
Public safety	106,828	-	-	-	(106,828)	-	(106,828)
Streets and highways	99,318	-	136,038	-	36,720	-	36,720
Capital outlay	104,929	-	-	104,544	(385)	-	(385)
Total governmental activities	<u>484,794</u>	<u>-</u>	<u>136,038</u>	<u>104,544</u>	<u>(244,212)</u>	<u>-</u>	<u>(244,212)</u>
Business-type activities							
Water	48,046	37,911	-	-	-	(10,135)	(10,135)
Sewer	17,884	22,687	-	-	-	4,803	4,803
Garbage	56,202	67,709	-	-	-	11,507	11,507
Total business-type activities	<u>122,132</u>	<u>128,307</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,175</u>	<u>6,175</u>
Total Primary Government	<u>\$ 606,926</u>	<u>\$ 128,307</u>	<u>\$ 136,038</u>	<u>\$ 104,544</u>	<u>(244,212)</u>	<u>6,175</u>	<u>(238,037)</u>
General revenues							
Property taxes					62,308	-	62,308
Sales tax					58,743	-	58,743
Licenses, permits, and fees					3,740	-	3,740
State aid distribution					90,125	-	90,125
Fines, forfeitures and penalties					32,350	-	32,350
Interest					2,641	-	2,641
Rent/lease					75,139	-	75,139
Miscellaneous					73,676	-	73,676
Total general revenues					<u>398,722</u>	<u>-</u>	<u>398,722</u>
Change in net position					154,510	6,175	160,685
Net position - January 1					670,606	(11,512)	659,094
Net position - December 31					<u>\$ 825,116</u>	<u>\$ (5,337)</u>	<u>\$ 819,779</u>

See Notes to Financial Statements

City of Dunseith
Statement of Activities – Cash Basis
Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Business-Type Activities	
Primary Government							
Governmental activities							
General government	\$ 114,843	\$ -	\$ -	\$ -	\$ (114,843)	\$ -	\$ (114,843)
Public safety	108,915	-	-	-	(108,915)	-	(108,915)
Streets and highways	100,673	-	121,535	-	20,862	-	20,862
Capital outlay	46,056	-	-	43,056	(3,000)	-	(3,000)
Debt service	18,089	-	-	-	(18,089)	-	(18,089)
Total governmental activities	388,576	-	121,535	43,056	(223,985)	-	(223,985)
Business-type activities							
Water	49,824	37,295	-	-	-	(12,529)	(12,529)
Sewer	20,080	21,864	-	-	-	1,784	1,784
Garbage	56,202	64,445	-	-	-	8,243	8,243
Total business-type activities	126,106	123,604	-	-	-	(2,502)	(2,502)
Total Primary Government	\$ 514,682	\$ 123,604	\$ 121,535	\$ 43,056	(223,985)	(2,502)	(226,487)
General revenues							
Property taxes		53,748					53,748
Sales tax		58,743					58,743
Licenses, permits, and fees		3,630					3,630
State aid distribution		58,838					58,838
Fines, forfeitures and penalties		26,372					26,372
Interest		8,058					8,058
Rent/lease		69,029					69,029
Miscellaneous		23,960					23,960
Total general revenues		302,378					302,378
Change in net position		78,393				(2,502)	75,891
Net position - January 1		592,213				(9,010)	583,203
Net position - December 31		\$ 670,606				\$ (11,512)	\$ 659,094

City of Dunseith
Statement of Activities – Cash Basis
Year Ended December 31, 2010

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
General government	\$ 454,021	\$ -	\$ 294,766	\$ (159,255)	\$ -	\$ (159,255)
Public safety	108,736	-	-	(108,736)	-	(108,736)
Streets and highways	67,976	-	84,813	16,837	-	16,837
Debt service	10,935	-	-	(10,935)	-	(10,935)
Total governmental activities	641,668	-	379,579	(262,089)	-	(262,089)
Business-type activities						
Water	66,160	38,559	-	-	(27,601)	(27,601)
Sewer	42,310	22,556	-	-	(19,754)	(19,754)
Garbage	56,202	68,727	-	-	12,525	12,525
Total business-type activities	164,672	129,842	-	-	(34,830)	(34,830)
Total Primary Government	\$ 806,340	\$ 129,842	\$ 379,579	(262,089)	(34,830)	(296,919)
General revenues						
Property taxes				55,852	-	55,852
Sales tax				62,303	-	62,303
Licenses, permits, and fees				3,565	-	3,565
State aid distribution				38,131	-	38,131
Fines, forfeitures and penalties				25,204	-	25,204
Interest				10,785	-	10,785
Rent/lease				71,875	-	71,875
Miscellaneous				77,189	-	77,189
Total general revenues				344,904	-	344,904
Change in net position				82,815	(34,830)	47,985
Net position - January 1				509,398	25,820	535,218
Net position - December 31				\$ 592,213	\$ (9,010)	\$ 583,203

City of Dunseith
Balance Sheet – Cash Basis
Governmental Funds
December 31, 2012

	General	Streets	EDA	Industrial Development	Other Governmental	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 291,257	\$ 194,901	\$ -	\$ 218,378	\$ 107,380	\$ 811,916
Due from other funds	21,265	-	-	-	-	21,265
Total Assets	<u>\$ 312,522</u>	<u>\$ 194,901</u>	<u>\$ -</u>	<u>\$ 218,378</u>	<u>\$ 107,380</u>	<u>\$ 833,181</u>
Liabilities and Fund Balances						
Liabilities						
Due to other funds	\$ -	\$ -	\$ 8,065	\$ -	\$ -	\$ 8,065
Fund Balances						
Restricted	-	194,901	-	218,378	107,380	520,659
Assigned - reimbursement	3,640	-	-	-	-	3,640
Unassigned	308,882	-	(8,065)	-	-	300,817
Total fund balances	<u>312,522</u>	<u>194,901</u>	<u>(8,065)</u>	<u>218,378</u>	<u>107,380</u>	<u>825,116</u>
Total Liabilities and Fund Balances	<u>\$ 312,522</u>	<u>\$ 194,901</u>	<u>\$ -</u>	<u>\$ 218,378</u>	<u>\$ 107,380</u>	<u>\$ 833,181</u>

City of Dunseith
Balance Sheet – Cash Basis
Governmental Funds
December 31, 2011

	General	Streets	EDA	Industrial Development	Other Governmental	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 220,646	\$ 158,181	\$ -	\$ 176,697	\$ 103,570	\$ 659,094
Due from other funds	19,577	-	-	-	-	19,577
Total Assets	<u>\$ 240,223</u>	<u>\$ 158,181</u>	<u>\$ -</u>	<u>\$ 176,697</u>	<u>\$ 103,570</u>	<u>\$ 678,671</u>
Liabilities and Fund Balances						
Liabilities						
Due to other funds	\$ -	\$ -	\$ 8,065	\$ -	\$ -	\$ 8,065
Fund Balances						
Restricted	-	158,181	-	176,697	103,570	438,448
Assigned - reimbursement	3,390	-	-	-	-	3,390
Unassigned	236,833	-	(8,065)	-	-	228,768
Total fund balances	<u>240,223</u>	<u>158,181</u>	<u>(8,065)</u>	<u>176,697</u>	<u>103,570</u>	<u>670,606</u>
Total Liabilities and Fund Balances	<u>\$ 240,223</u>	<u>\$ 158,181</u>	<u>\$ -</u>	<u>\$ 176,697</u>	<u>\$ 103,570</u>	<u>\$ 678,671</u>

City of Dunseith
Balance Sheet -- Cash Basis
Governmental Funds
December 31, 2010

	General	Streets	Industrial Development	Other Governmental	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 194,391	\$ 137,319	\$ 153,034	\$ 98,459	\$ 583,203
Due from other funds	9,010	-	-	-	9,010
Total Assets	<u>\$ 203,401</u>	<u>\$ 137,319</u>	<u>\$ 153,034</u>	<u>\$ 98,459</u>	<u>\$ 592,213</u>
Liabilities and Fund Balances					
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances					
Restricted	-	137,319	153,034	98,459	388,812
Assigned - reimbursement	3,225	-	-	-	3,225
Unassigned	200,176	-	-	-	200,176
Total fund balances	<u>203,401</u>	<u>137,319</u>	<u>153,034</u>	<u>98,459</u>	<u>592,213</u>
Total Liabilities and Fund Balances	<u>\$ 203,401</u>	<u>\$ 137,319</u>	<u>\$ 153,034</u>	<u>\$ 98,459</u>	<u>\$ 592,213</u>

City of Dunseith
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2012

	General	Streets	EDA	Industrial Development	Other Governmental	Total Governmental Funds
Receipts						
Taxes	\$ 109,954	\$ -	\$ -	\$ -	\$ 11,097	\$ 121,051
Licenses, permits, and fees	3,740	-	-	-	-	3,740
Intergovernmental	90,125	136,038	104,544	-	-	330,707
Fines, forfeitures and penalties	32,350	-	-	-	-	32,350
Interest	2,088	-	-	553	-	2,641
Rent/lease	34,011	-	-	41,128	-	75,139
Miscellaneous	73,676	-	-	-	-	73,676
Total receipts	<u>345,944</u>	<u>136,038</u>	<u>104,544</u>	<u>41,681</u>	<u>11,097</u>	<u>639,304</u>
Disbursements						
General government	171,210	-	-	-	2,509	173,719
Public safety	104,353	-	-	-	2,475	106,828
Streets and highways	-	99,318	-	-	-	99,318
Capital outlay	385	-	104,544	-	-	104,929
Total disbursements	<u>275,948</u>	<u>99,318</u>	<u>104,544</u>	<u>-</u>	<u>4,984</u>	<u>484,794</u>
Excess of Receipts Over Disbursements	<u>69,996</u>	<u>36,720</u>	<u>-</u>	<u>41,681</u>	<u>6,113</u>	<u>154,510</u>
Other Financing Sources (Uses)						
Transfers in	2,303	-	-	-	-	2,303
Transfers out	-	-	-	-	(2,303)	(2,303)
Total other financing sources (uses)	<u>2,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,303)</u>	<u>-</u>
Net change in fund balances	72,299	36,720	-	41,681	3,810	154,510
Fund Balance - January 1	240,225	158,181	(8,065)	176,697	103,570	670,606
Fund Balance - December 31	<u>\$ 312,522</u>	<u>\$ 194,901</u>	<u>\$ (8,065)</u>	<u>\$ 218,378</u>	<u>\$ 107,380</u>	<u>\$ 825,116</u>

See Notes to Financial Statements

City of Dunseith
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2011

	General	Streets	EDA	Industrial Development	Other Governmental	Total Governmental Funds
Receipts						
Taxes	\$ 99,446	-	\$ -	\$ -	\$ 13,045	\$ 112,491
Licenses, permits, and fees	3,630	-	-	-	-	3,630
Intergovernmental	58,838	121,535	43,056	-	-	223,429
Fines, forfeitures and penalties	26,372	-	-	-	-	26,372
Interest	7,523	-	-	535	-	8,058
Rent/lease	35,877	-	10,024	23,128	-	69,029
Miscellaneous	23,960	-	-	-	-	23,960
Total receipts	<u>255,646</u>	<u>121,535</u>	<u>53,080</u>	<u>23,663</u>	<u>13,045</u>	<u>466,969</u>
Disbursements						
General government	112,104	-	-	-	2,739	114,843
Public safety	106,440	-	-	-	2,475	108,915
Streets and highways	-	100,673	-	-	-	100,673
Capital outlay	3,000	-	43,056	-	-	46,056
Debt Service	-	-	17,601	-	-	17,601
Principal	-	-	488	-	-	488
Interest	-	-	61,145	-	-	61,145
Total disbursements	<u>221,544</u>	<u>100,673</u>	<u>61,145</u>	<u>-</u>	<u>5,214</u>	<u>388,576</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	34,102	20,862	(8,065)	23,663	7,831	78,393
Other Financing Sources (Uses)						
Transfers in	2,720	-	-	-	-	2,720
Transfers out	-	-	-	-	(2,720)	(2,720)
Total other financing sources (uses)	<u>2,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,720)</u>	<u>-</u>
Net change in fund balances	36,822	20,862	(8,065)	23,663	5,111	78,393
Fund Balance - January 1	203,401	137,319	-	153,034	98,459	592,213
Fund Balance - December 31	<u>\$ 240,223</u>	<u>\$ 158,181</u>	<u>\$ (8,065)</u>	<u>\$ 176,697</u>	<u>\$ 103,570</u>	<u>\$ 670,606</u>

City of Dunseith
Statement of Receipts, Disbursements, and Changes in Fund Balances – Cash Basis
Governmental Funds
Year Ended December 31, 2010

	General	Streets	EDA	Industrial Development	Other Governmental	Total Governmental Funds
Receipts						
Taxes	\$ 104,916	-	\$ -	\$ -	\$ 13,239	\$ 118,155
Licenses, permits, and fees	3,565	-	-	-	-	3,565
Intergovernmental	38,131	84,813	294,766	-	-	417,710
Fines, forfeitures and penalties	25,204	-	-	-	-	25,204
Interest	9,882	-	-	903	-	10,785
Rent/lease	36,747	-	-	35,128	-	71,875
Miscellaneous	77,189	-	-	-	-	77,189
Total receipts	<u>295,634</u>	<u>84,813</u>	<u>294,766</u>	<u>36,031</u>	<u>13,239</u>	<u>724,483</u>
Disbursements						
General government	167,496	-	283,831	-	2,694	454,021
Public safety	106,220	-	-	-	2,516	108,736
Streets and highways	-	67,976	-	-	-	67,976
Debt Service	-	-	-	-	-	-
Principal	-	-	10,012	-	-	10,012
Interest	-	-	923	-	-	923
Total disbursements	<u>273,716</u>	<u>67,976</u>	<u>294,766</u>	<u>-</u>	<u>5,210</u>	<u>641,668</u>
Excess of Receipts Over Disbursements	21,918	16,837	-	36,031	8,029	82,815
Other Financing Sources (Uses)						
Transfers in	2,769	-	-	-	-	2,769
Transfers out	-	-	-	-	(2,769)	(2,769)
Total other financing sources (uses)	<u>2,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,769)</u>	<u>-</u>
Net change in fund balances	24,687	16,837	-	36,031	5,260	82,815
Fund Balance - January 1, as previously reported	181,109	120,482	-	117,003	90,804	509,398
Restatement (Note 10)	(2,395)	-	-	-	2,395	-
Fund Balance - January 1, as restated	<u>178,714</u>	<u>120,482</u>	<u>-</u>	<u>117,003</u>	<u>93,199</u>	<u>509,398</u>
Fund Balance - December 31	\$ <u>203,401</u>	\$ <u>137,319</u>	\$ -	\$ <u>153,034</u>	\$ <u>98,459</u>	\$ <u>592,213</u>

City of Dunseith
Statement of Net Position – Cash Basis
Proprietary Funds
December 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ 7,863	\$ 7,863
Due from other funds	-	52,803	-	52,803
Total Assets	<u>\$ -</u>	<u>\$ 52,803</u>	<u>\$ 7,863</u>	<u>\$ 60,666</u>
Liabilities				
Due to other funds	\$ 66,003	-	-	\$ 66,003
Net Position				
Unrestricted	<u>(66,003)</u>	<u>52,803</u>	<u>7,863</u>	<u>(5,337)</u>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 52,803</u>	<u>\$ 7,863</u>	<u>\$ 60,666</u>

City of Dunseith
Statement of Net Position– Cash Basis
Proprietary Funds
December 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	48,000	-	48,000
Total Assets	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ -</u>	<u>\$ 48,000</u>
Liabilities				
Due to other funds	\$ 55,868	\$ -	\$ 3,644	\$ 59,512
Net Position				
Unrestricted	(55,868)	48,000	(3,644)	(11,512)
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ -</u>	<u>\$ 48,000</u>

City of Dunseith
Statement of Net Position – Cash Basis
Proprietary Funds
December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Assets				
Current Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other funds	<u>-</u>	<u>46,216</u>	<u>-</u>	<u>46,216</u>
Total Assets	<u>\$ -</u>	<u>\$ 46,216</u>	<u>\$ -</u>	<u>\$ 46,216</u>
Liabilities				
Due to other funds	<u>\$ 43,339</u>	<u>\$ -</u>	<u>\$ 11,887</u>	<u>\$ 55,226</u>
Net Position				
Unrestricted	<u>(43,339)</u>	<u>46,216</u>	<u>(11,887)</u>	<u>(9,010)</u>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 46,216</u>	<u>\$ -</u>	<u>\$ 46,216</u>

City of Dunseith
Statement of Changes in Net Position – Cash Basis
Proprietary Funds
Year Ended December 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Operating Receipts				
Charges for services	\$ 37,911	\$ 22,687	\$ 67,709	\$ 128,307
Operating Disbursements				
Wages and benefits	13,012	14,171	-	27,183
Power and utilities	5,258	2,412	-	7,670
Chemicals	6,384	-	-	6,384
Supplies	2,657	-	-	2,657
Equipment	19,339	1,301	-	20,640
Contracted services	-	-	56,202	56,202
Other	1,396	-	-	1,396
Total operating disbursements	<u>48,046</u>	<u>17,884</u>	<u>56,202</u>	<u>122,132</u>
Change in net position	(10,135)	4,803	11,507	6,175
Net position - January 1	<u>(55,868)</u>	<u>48,000</u>	<u>(3,644)</u>	<u>(11,512)</u>
Net position - December 31	<u>\$ (66,003)</u>	<u>\$ 52,803</u>	<u>\$ 7,863</u>	<u>\$ (5,337)</u>

City of Dunseith
Statement of Changes in Net Position – Cash Basis
Proprietary Funds
Year Ended December 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Operating Receipts				
Charges for services	\$ 37,295	\$ 21,864	\$ 64,445	\$ 123,604
Operating Disbursements				
Wages and benefits	13,668	13,668	-	27,336
Power and utilities	6,433	3,138	-	9,571
Chemicals	6,538	-	-	6,538
Supplies	22,361	-	-	22,361
Equipment	-	3,274	-	3,274
Contracted services	-	-	56,202	56,202
Other	824	-	-	824
Total operating disbursements	<u>49,824</u>	<u>20,080</u>	<u>56,202</u>	<u>126,106</u>
Change in net position	(12,529)	1,784	8,243	(2,502)
Net Position - January 1	<u>(43,339)</u>	<u>46,216</u>	<u>(11,887)</u>	<u>(9,010)</u>
Net Position - December 31	<u>\$ (55,868)</u>	<u>\$ 48,000</u>	<u>\$ (3,644)</u>	<u>\$ (11,512)</u>

City of Dunseith
Statement of Changes in Net Position – Cash Basis
Proprietary Funds
Year Ended December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Operating Receipts				
Charges for services	\$ 38,559	\$ 22,556	\$ 68,727	\$ 129,842
Operating Disbursements				
Wages and benefits	13,451	13,451	-	26,902
Power and utilities	6,162	1,461	-	7,623
Chemicals	4,582	-	-	4,582
Supplies	38,963	-	-	38,963
Equipment	2,778	27,398	-	30,176
Contracted services	-	-	56,202	56,202
Other	224	-	-	224
Total operating disbursements	<u>66,160</u>	<u>42,310</u>	<u>56,202</u>	<u>164,672</u>
Change in net position	(27,601)	(19,754)	12,525	(34,830)
Net Position - January 1	<u>(15,738)</u>	<u>65,970</u>	<u>(24,412)</u>	<u>25,820</u>
Net Position - December 31	<u>\$ (43,339)</u>	<u>\$ 46,216</u>	<u>\$ (11,887)</u>	<u>\$ (9,010)</u>

City of Dunseith
Statement of Cash Flows – Cash Basis
Proprietary Funds
Year Ended December 31, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities				
Receipts from customers	\$ 37,911	\$ 22,687	\$ 67,709	\$ 128,307
Payments to suppliers	(35,034)	(3,713)	(56,202)	(94,949)
Payments to employees	(13,012)	(14,171)	-	(27,183)
Net Cash Provided (Used) by Operating Activities	<u>(10,135)</u>	<u>4,803</u>	<u>11,507</u>	<u>6,175</u>
Cash Flows Provided (Used) by Noncapital Financing Activities				
Due to/from other funds	<u>10,135</u>	<u>(4,803)</u>	<u>(3,644)</u>	<u>1,688</u>
Change in Cash	-	-	7,863	7,863
Cash Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,863</u>	<u>\$ 7,863</u>

City of Dunseith
Statement of Cash Flows – Cash Basis
Proprietary Funds
Year Ended December 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities				
Receipts from customers	\$ 37,295	\$ 21,864	\$ 64,445	\$ 123,604
Payments to suppliers	(36,156)	(6,412)	(56,202)	(98,770)
Payments to employees	(13,668)	(13,668)	-	(27,336)
Net Cash Provided (Used) by Operating Activities	<u>(12,529)</u>	<u>1,784</u>	<u>8,243</u>	<u>(2,502)</u>
Cash Flows Provided (Used) by Noncapital Financing Activities				
Due to/from other funds	<u>12,529</u>	<u>(1,784)</u>	<u>(8,243)</u>	<u>2,502</u>
Change in Cash	-	-	-	-
Cash Balance - January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Dunseith
Statement of Cash Flows – Cash Basis
Proprietary Funds
Year Ended December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total Proprietary Funds</u>
Cash Flows from Operating Activities				
Receipts from Customers	\$ 38,559	\$ 22,556	\$ 68,727	\$ 129,842
Payments to suppliers	(52,709)	(28,859)	(56,202)	(137,770)
Payments to employees	(13,451)	(13,451)	-	(26,902)
Net Cash Provided (Used) by Operating Activities	<u>(27,601)</u>	<u>(19,754)</u>	<u>12,525</u>	<u>(34,830)</u>
Cash Flows Provided (Used) by Noncapital Financing Activities				
Due to/from other funds	<u>27,601</u>	<u>(6,066)</u>	<u>(12,525)</u>	<u>9,010</u>
Change in Cash	-	(25,820)	-	(25,820)
Cash Balance - January 1	<u>-</u>	<u>25,820</u>	<u>-</u>	<u>25,820</u>
Cash Balance - December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1 - Principal Business Activity and Significant Accounting Policies

Basis of Presentation

The City of Dunseith operates under a City commission form of government. As described below, the financial statements of the City have not been prepared in conformity with generally accepted accounting principles (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 City maintains its accounting records on a cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Also, records are not maintained for the general fixed assets account group and the general long-term debt account group. The more significant of the government's accounting policies are described below.

Reporting Entity

The City's financial statements include all funds for which the City is financially accountable.

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

- able to impose its will on that organization or
- there is potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

No component units were combined with the City's financial report.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Balance Classification Policies and Procedures

In 2010, the City of Dunseith adopted the Governmental Accounting Standards Board Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on governmental fund balance more transparent. The City classifies governmental fund balances as follows:

- **Nonspendable** – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- **Restricted** – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- **Committed** – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- **Assigned** – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by management.
- **Unassigned** – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses *restricted/committed* amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Equity Classifications

Government-wide Statements

Equity is classified as net position and is displayed in two components:

Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that does not meet the definition of "restricted".

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental fund and proprietary fund financial statements are reported using the financial resources measurement focus and the cash basis. Under this method, revenues are recognized only when the City receives cash, and expenditures are recognized only when the City disburses cash.

The City reports the following major governmental funds:

General Fund – For the years ended December 31, 2012, 2011, and 2010, the general fund is a major governmental fund that is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Streets Fund - For the years ended December 31, 2012, 2011, and 2010, the streets fund is a major governmental fund in which the City accounts for cash receipts and disbursements relating to upkeep of City streets for the City and surrounding townships in this fund.

Industrial Development Fund – For the years ended December 31, 2012, 2011, and 2010, the industrial development fund is a major governmental fund in which, in conjunction with the reimbursement fund, the City accounts for cash receipts and disbursements relating to the rental agreement with Turtle Mountain Corporation.

EDA Fund – For the years ended December 31, 2012 and 2010 the EDA fund is a major governmental fund in which the City accounts for cash receipts and disbursements relating to the Community Development Block Grant loans to Turtle Mountain Corporation.

The City reports the following major proprietary funds:

Water Fund - For the years ended December 31, 2012, 2011, and 2010, the City accounts for cash receipts and disbursements relating to the furnishing of water service to residents of the City in this fund.

Sewer Fund – For the years ended December 31, 2012, 2011, and 2010, the City accounts for cash receipts and disbursements relating to the furnishing of sewer service to residents of the City in this fund.

Garbage Fund - For the years ended December 31, 2012, 2011, and 2010, the City accounts for cash receipts and disbursements relating to the furnishing of garbage service to residents of the City in this fund.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., receipts and other financing sources) and decreases (i.e., disbursements and other financing uses) in net current assets.

All funds of the City are accounted for using the cash basis of accounting. Under the cash basis of accounting, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.

Interfund Transactions

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and 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.

Property Taxes

Property taxes levied and due are recognized as revenue when collected within the current period.

All real estate is assessed as of the current value on February 1 of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1 of the year following the assessment date. A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15. Penalty and interest are added on March 1 if the first half of the taxes are not paid. Additional penalty and interest are added October 15 to those taxes which are not paid. Taxes are collected by the County and remitted monthly to the City.

Cash and Cash Equivalents

The City maintains cash pools that are used by substantially all City funds. The City considers cash equivalents to be money market accounts and certificates of deposit with original maturities of 3 months or less.

Note 2 - Cash Deposits

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with 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 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.

At December 31, 2012, 2011, and 2010, the City's carrying amount of pooled deposits was \$819,779, \$659,094, and \$583,203, respectively. The bank balances of the pooled deposits were \$826,015, \$665,009, and \$584,958. Of the bank balances, \$250,000 was covered by Federal Depository Insurance each. The remaining balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

Interest Rate Risk

The City does not have a formal policy that limits investment maturities. However, the City does limit the maturities of certificates of deposit to less than one year as a means of managing its exposure to fair value losses arising from increasing interest rates.

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, 2012, 2011, and 2010, the City held certificates of deposit in the amount of \$269,452, \$286,950 and \$278,352, respectively. The certificates of deposit all mature in less than one year and are considered deposits and are included in the above amount of total deposits.

Note 3 - Interfund Receivables/Payables

The following is a summary of interfund receivables (due from other funds) and payables (due to other funds) as of December 31, 2012, 2011, and 2010:

Year ending December 31, 2012

	Due From		
	EDA	Water Fund	Total
Due To			
General Fund	\$ 8,065	\$ 13,200	\$ 21,265
Sewer Fund	-	52,803	52,803
	<u>\$ 8,065</u>	<u>\$ 66,003</u>	<u>\$ 74,068</u>

Year ending December 31, 2011

	Due From			
	EDA	Water Fund	Garbage Fund	Total
Due To				
General Fund	\$ 8,065	\$ 7,868	\$ 3,644	\$ 19,577
Sewer Fund	-	48,000	-	48,000
	<u>\$ 8,065</u>	<u>\$ 55,868</u>	<u>\$ 3,644</u>	<u>\$ 67,577</u>

Year ending December 31, 2010

	Due From		
	Water Fund	Garbage Fund	Total
Due To			
General Fund	\$ -	\$ 9,010	\$ 9,010
Sewer Fund	43,339	2,877	46,216
	<u>\$ 43,339</u>	<u>\$ 11,887</u>	<u>\$ 55,226</u>

The above receivables/payables are the result of the recurring deficit spending from the different funds. The above receivables/payables will be repaid by future revenues generated from these funds.

Note 4 - Long-Term Debt

The City entered into a loan agreement payable to North Central Planning Council at an interest rate of 4% which is due in monthly payments of \$911 including interest until August 2012 and is secured by a municipal guarantee (Note Payable 4%).

There was no long-term debt for the year ended December 31, 2012.

Changes in long-term debt for the year ended December 31, 2011 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities Note payable 4%	<u>\$ 17,601</u>	<u>\$ -</u>	<u>\$ 17,601</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in long-term debt for the year ended December 31, 2010 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities Note payable 4%	<u>\$ 27,613</u>	<u>\$ -</u>	<u>\$ 10,012</u>	<u>\$ 17,601</u>	<u>\$ 10,012</u>

As stated in Note 1, the City does not maintain long-term debt, thus these items are not presented in the financial statements.

Note 5 - Commitments

The City previously entered into separate contracts for garbage collection and city maintenance services. Garbage services are to be provided at a cost of \$56,202 per year plus fuel costs. Maintenance services are to be provided at a cost of \$17,360 per year.

Note 6 - Risk Management

The City of Dunseith 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 (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for over 2,000 state agencies and political subdivisions. The City pays an annual premium to NDRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRF is limited to losses of \$1,000,000 per occurrence.

The City also participates in the North Dakota Fire and Tornado Fund. The agency pays an annual premium to the Fire and Tornado Fund to cover property damage to building 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 City participates in the North Dakota Worker's Compensation Bureau, an Enterprise Fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the state's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in the past three fiscal years.

Note 7 - Deficit Fund Balances

The City's EDA Fund had a deficit balance of \$8,065 and \$8,065, respectively, as of December 31, 2012 and 2011. The City plans to clear the deficit by executing more timely collections of revenues for the Reimbursement Fund and ensuring payments are properly allocated to the correct fund.

The City's Water Fund had a deficit balance of \$66,003, \$55,868, and \$43,339, respectively, as of December 31 2012, 2011, and 2010. The City plans to clear the deficit by installing remotely read water meters to ensure water usage is being reported correctly, increasing the rates to cover the expenditures in this fund, and to ensure payments are properly allocated to the correct fund.

The City's Garbage Fund had a deficit balance of \$3,644, and \$11,887, respectively, as of December 31, 2011 and 2010. The City plans to clear the deficit by increasing the rates to cover the expenditures in this fund and ensuring payments are properly allocated to the correct fund.

Note 8 - Excess of Expenditures over Appropriations

The City's expenditures exceeded appropriations by the following amounts:

<u>Year</u>	<u>Fund</u>	<u>Amount</u>
2012	General Fund	\$ (64,478)
2012	Streets Fund	(38,318)
2012	Water Fund	(16,046)
2012	Sewer Fund	(384)
2011	General Fund	(13,824)
2011	Streets Fund	(39,673)
2011	Insurance Fund	(268)
2011	Fire Levy Fund	(246)
2011	Water Fund	(17,824)
2011	Sewer Fund	(2,580)
2010	General Fund	(67,486)
2010	Streets Fund	(11,476)
2010	Insurance Fund	(317)
2010	Fire Levy Fund	(287)
2010	Water Fund	(28,910)
2010	Sewer Fund	(23,560)

Note 9 - Transfers

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the years ended December 31, 2012, 2011, and 2010:

	<u>Transfer In</u>	<u>Transfer Out</u>
2012		
General fund	\$ 2,303	\$ -
Other governmental funds	-	2,303
	<u>\$ 2,303</u>	<u>\$ 2,303</u>
2011		
General fund	\$ 2,720	\$ -
Other governmental funds	-	2,720
	<u>\$ 2,720</u>	<u>\$ 2,720</u>
2010		
General fund	\$ 2,769	\$ -
Other governmental funds	-	2,769
	<u>\$ 2,769</u>	<u>\$ 2,769</u>

Note 10 - Restatement of Fund Balance

The beginning fund balance of the General Fund and Other Governmental Funds have been restated in order to reflect the reclassification of certain funds from the Special Revenue fund type in accordance with the revised definitions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The effect on beginning fund balance presented is as follows:

	<u>General</u>	<u>Other Governmental Funds</u>
Fund balance - January, 1 as previously reported	\$ 181,109	\$ 90,804
GASB 54 restatements	<u>(2,395)</u>	<u>2,395</u>
Fund balance - January, 1 as restated	<u>\$ 178,714</u>	<u>\$ 93,199</u>

Note 11 - Restricted Net Position/Fund Balance

Net position/fund balance is restricted for the following purposes:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Streets	\$ 194,901	\$ 158,181	\$ 137,319
Industrial Development	218,378	176,697	153,034
Social Security	43,937	43,241	41,790
Emergency	22,923	21,979	20,866
Planning Study	14,173	13,599	12,920
Jail	26,347	24,751	22,883
	<u>\$ 520,659</u>	<u>\$ 438,448</u>	<u>\$ 388,812</u>



Supplementary Information
December 31, 2012, 2011, and 2010
City of Dunseith

City of Dunseith
 Budgetary Comparison Schedule -- Cash Basis
 General Fund
 Year Ended December 31, 2012

	2012		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Receipts			
Taxes	\$ 86,931	\$ 109,954	\$ 23,023
Licenses, permits, and fees	3,650	3,740	90
Intergovernmental	32,500	90,125	57,625
Fines, forfeitures and penalties	20,000	32,350	12,350
Interest	5,000	2,088	(2,912)
Rent/lease	40,000	34,011	(5,989)
Miscellaneous	23,000	73,676	50,676
Total receipts	<u>211,081</u>	<u>345,944</u>	<u>134,863</u>
Disbursements			
General government	98,130	171,210	(73,080)
Public safety	111,240	104,353	6,887
Culture and recreation	2,000	-	2,000
Capital outlay	100	385	(285)
Total disbursements	<u>211,470</u>	<u>275,948</u>	<u>(64,478)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(389)</u>	<u>69,996</u>	<u>70,385</u>
Other Financing Sources			
Transfer in	<u>-</u>	<u>2,303</u>	<u>2,303</u>
Net Change in Fund Balance	(389)	72,299	72,688
Fund balance - January 1	<u>240,223</u>	<u>240,223</u>	<u>-</u>
Fund Balance, December 31	<u>\$ 239,834</u>	<u>\$ 312,522</u>	<u>\$ 72,688</u>

City of Dunseith
 Budgetary Comparison Schedule – Cash Basis
 General Fund
 Year Ended December 31, 2011

	2011		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Receipts			
Taxes	\$ 85,093	\$ 99,446	\$ 14,353
Licenses, permits, and fees	3,650	3,630	(20)
Intergovernmental	27,500	58,838	31,338
Fines, forfeitures and penalties	20,000	26,372	6,372
Interest	5,000	7,523	2,523
Rent/lease	40,000	35,877	(4,123)
Miscellaneous	26,000	23,960	(2,040)
Total receipts	<u>207,243</u>	<u>255,646</u>	<u>48,403</u>
Disbursements			
General government	94,380	112,104	(17,724)
Public safety	111,240	106,440	4,800
Culture and recreation	2,000	-	2,000
Capital outlay	100	3,000	(2,900)
Total disbursements	<u>207,720</u>	<u>221,544</u>	<u>(13,824)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>(477)</u>	<u>34,102</u>	<u>34,579</u>
Other Financing Sources			
Transfer in	<u>-</u>	<u>2,720</u>	<u>2,720</u>
Net Change in Fund Balance	(477)	36,822	37,299
Fund balance - January 1	<u>203,401</u>	<u>203,401</u>	<u>-</u>
Fund Balance, December 31	<u>\$ 202,924</u>	<u>\$ 240,223</u>	<u>\$ 37,299</u>

City of Dunseith
 Budgetary Comparison Schedule – Cash Basis
 General Fund
 Year Ended December 31, 2010

	2010		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
Receipts			
Taxes	\$ 83,529	\$ 104,916	\$ 21,387
Licenses, permits, and fees	3,650	3,565	(85)
Intergovernmental	27,500	38,131	10,631
Fines, forfeitures and penalties	20,000	25,204	5,204
Interest	5,000	9,882	4,882
Rent/lease	40,000	36,747	(3,253)
Miscellaneous	26,000	77,189	51,189
Total receipts	<u>205,679</u>	<u>295,634</u>	<u>89,955</u>
Disbursements			
General government	95,630	167,496	(71,866)
Public safety	108,500	106,220	2,280
Culture and recreation	2,000	-	2,000
Capital outlay	100	-	100
Total disbursements	<u>206,230</u>	<u>273,716</u>	<u>(67,486)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	(551)	21,918	22,469
Other Financing Sources			
Transfer In	-	2,769	2,769
Net Change in Fund Balance	(551)	24,687	25,238
Fund balance - January 1, as previously reported	<u>181,109</u>	<u>181,109</u>	<u>-</u>
Restatement (Note 10)	-	(2,395)	(2,395)
Fund balance - January 1, as restated	<u>181,109</u>	<u>178,714</u>	<u>(2,395)</u>
Fund Balance, December 31	<u>\$ 180,558</u>	<u>\$ 203,401</u>	<u>\$ 22,843</u>

City of Dunseith
 Budgetary Comparison Schedule – Cash Basis
 Special Revenue Funds
 Year Ended December 31, 2012

	2012		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
<u>Streets Fund</u>			
Receipts			
Intergovernmental	\$ 80,450	\$ 136,038	\$ 55,588
Disbursements			
Streets and highways	61,000	99,318	(38,318)
Excess of Receipts Over Disbursements	19,450	36,720	17,270
Fund balance - January 1	158,181	158,181	-
Fund Balance, December 31	\$ 177,631	\$ 194,901	\$ 17,270

City of Dunseith
 Budgetary Comparison Schedule – Cash Basis
 Special Revenue Funds
 Year Ended December 31, 2011

	2011		
	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<u>Streets Fund</u>			
Receipts			
Intergovernmental	<u>\$ 75,550</u>	<u>\$ 121,535</u>	<u>\$ 45,985</u>
Disbursements			
Streets and highways	<u>61,000</u>	<u>100,673</u>	<u>(39,673)</u>
Excess of Receipts Over Disbursements	14,550	20,862	6,312
Fund balance - January 1	<u>137,319</u>	<u>137,319</u>	<u>-</u>
Fund Balance, December 31	<u><u>\$ 151,869</u></u>	<u><u>\$ 158,181</u></u>	<u><u>\$ 6,312</u></u>

City of Dunseith
 Budgetary Comparison Schedule – Cash Basis
 Special Revenue Funds
 Year Ended December 31, 2010

	2010		
	Original and Final Budget	Actual Amounts	Variance with Final Budget
<u>Streets Fund</u>			
Receipts			
Intergovernmental	\$ 60,550	\$ 84,813	\$ 24,263
Disbursements			
Streets and highways	56,500	67,976	(11,476)
Excess of Receipts Over Disbursements	4,050	16,837	12,787
Fund balance - January 1	120,482	120,482	-
Fund Balance, December 31	\$ 124,532	\$ 137,319	\$ 12,787

Note 1 - Stewardship, Compliance and Accountability

Budgetary Information

The City auditor prepares an annual City budget on the cash basis. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next year. The City's governing board holds a public hearing where any City taxpayer may testify in favor or against any proposed disbursements or tax levies. After the budget hearing and on or before October 1, the board adopts the final budget. The final budget is sent to the county auditor by October 10.

No disbursement shall be made or liability incurred in excess of the appropriation except for transfers as authorized by North Dakota Century Code Section 40-40-15. The budget may be amended during the year for any receipts and appropriations not anticipated at the time the budget was prepared except no amendment changing the taxes levied can be made after October 10. At year end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

Note 2 - Special Revenue Budgeting Basis

The City does not prepare a budget for the following specific special revenue funds: industrial development, juvenile counseling, housing project, water project, and economic development agency program funds. Therefore, the City has omitted these funds from its combined budget vs. actual statement.



Additional Reports
December 31, 2012, 2011, and 2010
City of Dunseith



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor, City Council, and City Auditor
City of Dunseith, North Dakota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dunseith, North Dakota, as of and for the years ended December 31, 2012, 2011, and 2010, and the related notes to the financial statements, which collectively comprise the City of Dunseith's basic financial statements and have issued our report thereon dated September 29, 2014. Our report included an explanatory paragraph describing the other comprehensive basis of accounting used by the City. We did not express an opinion on the proprietary major funds because of a scope limitation due to inadequacy of receipt records.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Dunseith'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 Dunseith's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Dunseith's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 12-1, 12-2, 12-3, 12-4, 12-5 and 12-6 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunseith's financial statements are free of material misstatement, we performed tests of the city's 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*.

The City of Dunseith's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of audit findings. We did not audit the City's response and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Eide Bailly LLP

Bismarck, North Dakota
September 29, 2014

Findings - Financial Statement Audit

12-1 Cash Accounts

Condition: A number of material cash accounts and related activity were not recorded in the City's accounting records. These would not have been identified as a result of the City's existing internal controls, and therefore resulted in a material misstatement of the City's financial statements.

Criteria: These cash accounts are in the City's name and the City has rights to these funds, thus the City is required to report the activity in its accounting records. A good system of internal accounting control contemplates an adequate system for recording and processing entries significant to the financial statements.

Cause: Management was not aware that these cash accounts should be recorded in the City's accounting records. Two of these cash accounts relate to federal award programs, in which the City did not realize the grants were to the City and the City was responsible for recording in its accounting records.

Effect: Material cash, receipts, and expenditures were omitted from the City's accounting records. If they are not being recorded there is no way for the council to be able to monitor the activity that takes place in these accounts.

Recommendation: Any cash account in the City's name should be recorded on the City's accounting records. Any federal grant listing the City as the "grantee", should be monitored and the related activity should be recorded in the City's accounting records.

Response: Management will post the audit adjustments to record the amounts in the City's accounting records. Management will be more aware in the future when opening new cash accounts and receiving grants to ensure the activity is recorded in the accounting records.

12-2 Material Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause: The City does not have an internal control system designed to identify all necessary adjustments.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: The City will make an effort to review and reconcile all accounts in future years.

12-3 Segregation of Duties

Condition: The City has a lack of segregation of duties in certain areas due to a limited staff.

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.

Cause: The City has limited staff.

Effect: Inadequate segregation of duties could adversely affect the City's ability to detect fraudulent activity and potential 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 function.

Recommendation: Your office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the City. Additionally, we recommend that the City Council reviews unopened bank statements prior to the City auditor reconciling them.

Response: At the present time the City has implemented mitigating controls where feasible given its limited staff. Due to cost constraints, there will be no further administrative employees added.

12-4 Financial Statement Preparation and Related Footnote Disclosures

Condition: The City of Dunseith does not have an internal control system designed to provide for the preparation of the financial statements and related notes to the financial statements being audited. As auditors, we were requested to draft the financial statements and the related notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for required financial statement reporting and disclosures in the notes to the financial statements.

Cause: Management has not attended training to enhance their knowledge of financial statement reporting and disclosures in the notes to the financial statements.

Effect: This could result in material omissions in the financial statements and a lack of required disclosures in the notes to the financial statements that would not be prevented or detected by management.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response: Management of the City of Dunseith will assess the risk and make timely recommendations to the Council on a method to handle the deficiency.

12-5 Payroll Contract

Condition: The City of Dunseith does not maintain a payroll contract with the City Auditor.

Criteria: The City should maintain a payroll contract with the City Auditor.

Cause: The City has not required this in the past.

Effect: This could result in payroll reimbursements to the City Auditor in the incorrect amounts.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Management's Response: Management of the City of Dunseith will assess the risk and make timely recommendations to the Council on a method to handle the deficiency.

12-6 Revenue allocation, tracking, and reconciliation

Condition: The City of Dunseith does not maintain detailed customer payment records for the water, sewer, and garbage fund payments for the auditor to trace payments for allocation between funds. The City does not keep records of customer balances owed and payments that have been applied to bills. In addition, the City does not verify that cash deposited agrees to revenues recorded.

Criteria: The City should maintain detailed customer records of balances owed, payments applied to balances, and the allocation of the payments between each fund. They City should also reconcile cash deposits to revenues recorded.

Cause: The City does not have a set accounting record system for recording and tracking customer payments. The City maintains a manual ledger system for all accounting records; therefore detailed record keeping is not consistently maintained or as accurate as other methods. The system in place is not maintained for long-term or detailed purposes.

Effect: This could result in misallocation between funds and potentially result in negative fund balances. It could result in the City not collecting all payments due to them and could also result in fraudulent activity.

Recommendation: The City should set up and maintain customer payment records for easy recall of non-payment, allocation of payment to revenue source, and receipt batch. The system set up by the City can be either a manual or computerized tracking system, as long as the information obtained can be traced back to what is recorded in the general ledger.

Management's Response: The City is in the process of installing remote read water meters, and is obtaining estimates for a computer, along with Black Mountain Software.