CITY OF ELLENDALE
ELLENDALE, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

CITY OF ELLENDALE

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CITY OF ELLENDALE
LIST OF OFFICIALS
DECEMBER 31, 2015

CITY COUNCIL

	Office
Matt Thorpe	Mayor
Tim Belmore Sandy Ulmer Eric Fuher Jolene Maunu Richard Reis Troy Schilling	Commissioners

EMPLOYEES:

Candace Middlestead	Auditor/Administrator

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

City Council
City of Ellendale
Ellendale, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of City of Ellendale as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ellendale as of December 31, 2015, 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 Ellendale'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 November 14, 2016, 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
November 14, 2016

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

CITY OF ELLENDALE
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
DECEMBER 31, 2015

	Governmental Activities	Business-type Activities	Total	Component unit
ASSETS				
Current assets:				
Cash and investments	961,926.95	691,640.13	1,653,567.08	39,496.94
Non-current assets:				
Capital assets (net of accumulated depreciation)	4,511,875.99	297,962.89	4,809,838.88	694,049.96
Total Assets	5,473,802.94	989,603.02	6,463,405.96	733,546.90
LIABILITIES				
Current liabilities				
Non-current liabilities:				
Due within one year:				-
Bonds payable	150,000.00		150,000.00	-
Notes payable	35,000.00		35,000.00	-
Due after one year:				
Bonds payable	585,000.00		585,000.00	694,157.89
Notes payable	484,000.00		484,000.00	-
				-
Total liabilities	1,254,000.00	-	1,254,000.00	694,157.89
NET POSITION				
Net investment in capital assets	3,257,875.99	297,962.89	3,555,838.88	(107.93)
Restricted for:				
Capital projects	49,243.10		49,243.10	
Debt service	228,691.46		228,691.46	
Unrestricted	683,992.39	691,640.13	1,375,632.52	39,496.94
Total net position	4,219,802.94	989,603.02	5,209,405.96	39,389.01

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

CITY OF ELLENDALE
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

		Program Revenues		Revenue & Changes in Net Position	
	Expenses	Charges for Services	Operating grants and Contributions	Governmental Activities	Component unit
Governmental activities:					
General government	321,245.10			(321,245.10)	23,365.12
Public safety	126,983.70			(126,983.70)	-
Highways and streets	220,502.56		104,992.93	(115,509.63)	-
Economic development	135,507.21			(135,507.21)	-
Capital outlays	646,700.90			(646,700.90)	-
Interest expense	45,545.05			(45,545.05)	19,568.86
Depreciation- Unallocated	-			-	16,524.99
Total Governmental Activities	1,496,484.52	-	104,992.93	(1,391,491.59)	59,458.97
Business-type activities					
Water	224,746.48	237,026.70		12,280.22	
Sewer	84,734.79	78,701.67		(6,033.12)	
Garbage	190,096.89	190,128.08		31.19	
Penalty	325.00	-		(325.00)	
Meter	-	28,990.22		28,990.22	
Surcharge	-			-	
Ambulance	181,450.94	120,920.36		(60,530.58)	
Perpetual care	-	9,175.00		9,175.00	
Capital outlays	53,724.20			(53,724.20)	
Total Business-type activities	735,078.30	664,942.03	-	(70,136.27)	-
Total	2,231,562.82	664,942.03	104,992.93	(1,461,627.86)	59,458.97

	Governmental	Business-type	Total	
Net expense	(1,391,491.59)	(70,136.27)	(1,461,627.86)	
General Revenues				
Taxes:				
Property taxes	182,250.71	50,441.27	232,691.98	
Sales taxes	146,833.55		146,833.55	
Special assessments	166,001.31		166,001.31	
Licenses and permits	9,702.00		9,702.00	
Intergovernmental	510,097.96	39,023.00	549,120.96	
Interest income	6,970.42	3,628.21	10,598.63	
Other revenue	284,127.01	58,215.17	342,342.18	70,155.00
Total General Revenues	1,305,982.96	151,307.65	1,457,290.61	70,155.00
Transfers in (out)	-	-	-	
Change in Net Position	(85,508.63)	81,171.38	(4,337.25)	10,696.03
Net Position- January 1	4,305,311.57	908,431.64	5,213,743.21	28,692.98
Net Position- December 31	4,219,802.94	989,603.02	5,209,405.96	39,389.01

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

CITY OF ELLENDALE
BALANCE SHEET- MODIFIED CASH BASIS- GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	GENERAL	JOB DEVELOP AUTHORITY	STREET 2008-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	6,165.71	99,731.80	65,106.13	790,923.31	961,926.95
Total Assets	6,165.71	99,731.80	65,106.13	790,923.31	961,926.95
LIABILITIES					
Total liabilities	-	-	-	-	-
FUND BALANCE					
Restricted for Capital Projects				49,243.10	49,243.10
Restricted for Debt Service			65,106.13	163,585.33	228,691.46
Restricted for other purposes		99,731.80		757,775.57	857,507.37
Unassigned	6,165.71			(179,680.69)	(173,514.98)
Total fund balance	6,165.71	99,731.80	65,106.13	790,923.31	961,926.95
Total liabilities and fund balance	6,165.71	99,731.80	65,106.13	790,923.31	961,926.95

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

CITY OF ELLENDALE
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015

Total Fund Balances for Governmental Funds			961,926.95
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	6,694,956.38	
	Less accumulated depreciation	2,183,080.39	
	Net capital assets		4,511,875.99
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		(735,000.00)
	SRF Notes payable		(519,000.00)
Total Net Position of Governmental Activities			4,219,802.94

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

CITY OF ELLENDALE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- MODIFIED CASH BASIS- GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2015

	GENERAL	JOB DEVELOP AUTHORITY	STREET 2008-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	129,902.79			52,347.92	182,250.71
Sales taxes		92,620.85		54,212.70	146,833.55
Special Assessments			166,001.31	-	166,001.31
Intergovernmental	176,367.10			438,723.79	615,090.89
Interest	2,662.24	666.84	-	3,641.34	6,970.42
Charges for services	26,435.93			133,532.96	159,968.89
Other	42,145.23	25,494.24		66,220.65	133,860.12
Total Revenues	377,513.29	118,781.93	166,001.31	748,679.36	1,410,975.89
Current:					
General government	266,850.05			54,395.05	321,245.10
Public safety	116,774.97			10,208.73	126,983.70
Highways and streets				220,502.56	220,502.56
Economic development		135,507.21		-	135,507.21
Capital outlays				530,674.85	530,674.85
Debt Service					
Principal			140,000.00	45,000.00	185,000.00
Interest expense			21,540.00	24,005.05	45,545.05
Total Expenditures	383,625.02	135,507.21	161,540.00	884,786.24	1,565,458.47
Excess revenues (expenditures)	(6,111.73)	(16,725.28)	4,461.31	(136,106.88)	(154,482.58)
Other Financing Sources (Uses):					
Transfers in				10.00	10.00
Transfers out	(10.00)	-		-	(10.00)
Bond proceeds			-	-	-
Total other financing sources and uses	(10.00)	-	-	10.00	-
Net change in fund balances	(6,121.73)	(16,725.28)	4,461.31	(136,096.88)	(154,482.58)
Fund balance- beginning	12,287.44	116,457.08	60,644.82	927,020.19	1,116,409.53
Fund balance- ending	6,165.71	99,731.80	65,106.13	790,923.31	961,926.95

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

CITY OF ELLENDALE
RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances- Total Governmental Funds		(154,482.58)
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	-	
Current year depreciation expense	116,026.05	(116,026.05)
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.		185,000.00
Change in Net Position of Governmental Activities		(85,508.63)

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

CITY OF ELLENDALE
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2015

	Utilities	Ambulance	Surcharge	Other	Total
ASSETS					
Current assets:					
Cash, cash equivalents and investmen	272,831.01	22,847.26	230,488.15	165,473.71	691,640.13
Noncurrent assets:					
Capital assets (net of accumulated depreciation)				297,962.89	297,962.89
Total Assets	272,831.01	22,847.26	230,488.15	463,436.60	989,603.02
LIABILITIES					
Current liabilities					
Non-current liabilities:					
Total liabilities	-	-	-	-	-
NET POSITION					
Net investment in capital assets			-	297,962.89	297,962.89
Restricted for:					
Capital projects					-
Debt service					-
Unrestricted	272,831.01	22,847.26	230,488.15	165,473.71	691,640.13
Total net position	272,831.01	22,847.26	230,488.15	463,436.60	989,603.02

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

CITY OF ELLENDALE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Utilities	Ambulance	Surcharge	Other	Total
OPERATING REVENUE					
Charges for services	505,856.45	120,920.36		38,165.22	664,942.03
OPERATING EXPENSES					
Salaries and benefits	137,287.36	140,341.58			277,628.94
Office	6,884.94	575.51			7,460.45
Insurance	2,218.06	3,944.44			6,162.50
Contract services	281,119.63	2,945.00			284,064.63
Electricity	14,951.96	338.81			15,290.77
Supplies	-	18,268.40			18,268.40
Repairs and maintenance	42,425.85	1,210.99			43,636.84
Small equipment	-	2,074.28			2,074.28
Telephone	-	988.55			988.55
Depreciation				53,724.20	53,724.20
Miscellaneous	14,690.36	9,495.29			24,185.65
Total operating expenses	499,578.16	180,182.85	-	53,724.20	733,485.21
Operating income (loss)	6,278.29	(59,262.49)	-	(15,558.98)	(68,543.18)
NON-OPERATING REVENUE (EXPENSE)					
Property taxes		50,441.27			50,441.27
Interest income	1,323.04	926.62	1,452.75	(74.20)	3,628.21
Grant income	-	39,023.00			39,023.00
Interest expense					-
Capital outlay	-	(1,413.00)	-	-	(1,413.00)
Other	23,518.13	29,603.90	-	4,913.05	58,035.08
Total non-operating rev (exp)	24,841.17	118,581.79	1,452.75	4,838.85	149,714.56
Income (loss) before transfers	31,119.46	59,319.30	1,452.75	(10,720.13)	81,171.38
Transfers in		-	-		-
Transfers out	-	-	-		-
Change in net position	31,119.46	59,319.30	1,452.75	(10,720.13)	81,171.38
Net Position- January 1	241,711.55	(36,472.04)	229,035.40	474,156.73	908,431.64
Net Position- December 31	272,831.01	22,847.26	230,488.15	463,436.60	989,603.02

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

CITY OF ELLENDALE
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

	Utilities	Ambulance	Surcharge	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	505,856.45	120,920.36	-	38,165.22	664,942.03
Payments to suppliers	(362,290.80)	(39,841.27)	-	-	(402,132.07)
Payments to employees	(137,287.36)	(140,341.58)	-	-	(277,628.94)
Other receipts	23,518.13	119,068.17	-	4,913.05	147,499.35
Net cash provided by (used in) operating activi	29,796.42	59,805.68	-	43,078.27	132,680.37
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	-	-	-	-
Transfers from other funds	-	-	-	-	-
Net cash provided by (used in) noncapital fina	-	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	(1,413.00)	-	-	(1,413.00)
Principal paid on capital debt					-
Interest paid on capital debt	-	-	-	-	-
Net cash provided by (used in) capita	-	(1,413.00)	-	-	(1,413.00)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	1,323.04	926.62	1,452.75	(74.20)	3,628.21
Net cash provided by (used in) investing activi	1,323.04	926.62	1,452.75	(74.20)	3,628.21
Net increase (decrease) in cash and cash equival	31,119.46	59,319.30	1,452.75	43,004.07	134,895.58
Balance- beginning of year	241,711.55	(36,472.04)	229,035.40	122,469.74	556,744.65
Balance- end of year	272,831.01	22,847.26	230,488.15	165,473.81	691,640.23
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	6,278.29	(59,262.49)	-	(15,558.98)	(68,543.18)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense				53,724.20	53,724.20
Change in assets and liabilities:					
Refundable deposits					-
Miscellaneous receipts (expense)	23,518.13	119,068.17	-	4,913.05	147,499.35
Net cash provided by operating activi	29,796.42	59,805.68	-	43,078.27	132,680.37

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

CITY OF ELLENDALE
COMBINING STATEMENT OF NET POSITION- COMPONENT UNITS- MODIFIED CASH BASIS
DECEMBER 31, 2015

		HOUSING AUTHORITY	TOTAL
ASSETS			
Cash and investments	-	39,496.94	39,496.94
Accounts receivable			-
Taxes receivable			-
Intergovernmental receivable			-
Contract for deed			-
Capital assets (net of accumulated depreciation)		694,049.96	694,049.96
Total Assets	-	733,546.90	733,546.90
LIABILITIES			
Accounts Payable		-	-
Salaries and benefits payable			-
Deferred revenue			-
Long-term liabilities:			
Due within one year:			
Bonds payable			-
Notes payable			-
Due after one year:			
Bonds payable		694,157.89	694,157.89
Notes payable			-
Total liabilities	-	694,157.89	694,157.89
NET POSITION			
Net investment in capital assets		(107.93)	(107.93)
Restricted for:			
Capital projects			-
Debt service			-
Unrestricted	-	39,496.94	39,496.94
Total net position	-	39,389.01	39,389.01

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

CITY OF ELLENDALE
COMBINING STATEMENT OF ACTIVITIES- COMPONENT UNITS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

		HOUSING AUTHORITY	TOTAL
Expenditures			
General government		23,365.12	23,365.12
Public safety	-		-
Highways and streets			-
Economic development			-
Other capital outlays			-
Interest expense		19,568.86	19,568.86
Depreciation- Unallocated		16,524.99	16,524.99
Total Expenditures	-	59,458.97	59,458.97
Revenue			
Property taxes		-	-
Intergovernmental	-		-
Charges for services		70,155.00	70,155.00
Miscellaneous	-		-
Interest income	-	-	-
Total Revenues	-	70,155.00	70,155.00
Change in Net Position	-	10,696.03	10,696.03
Net Position- January 1	-	28,692.98	28,692.98
Net Position- December 31	-	39,389.01	39,389.01

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ellendale (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 is one component units: Ellendale Housing Authority- The Housing Authority is a non-profit corporation formed for the purpose of providing funds to finance improvements on City property and for leasing property from the City. The directors of the Authority are appointed by the Mayor. The activity of the Authority are discretely presented. The Authority does not issue separate statements.

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.

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 major governmental fund:

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.

Job development authority- The JDA fund is used to account for economic development activity for the City. Primary revenue sources are sales taxes and loan repayments.

Street imp 2008-1. Fund is used to account for the accumulation of financial resources for the payment of principal and interest on the City's debt. The City annually levies special assessments restricted for the retirement of debt.

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.

Ambulance- accounts for the operating activities of the City's ambulance services.

Surcharge- accounts for the collection of surcharge fees.

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.

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 and certificates of deposits with maturity of less than 90 days. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

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, 2004. Prior to January 1, 2004, 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.

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.

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 general fund budget.

EXPENDITURES OVER APPROPRIATIONS
The City did not overspend any budgets

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, 2015, the City's carrying amount of deposits was $1,653,567. Of the bank balances, $250,000 was covered by Federal Depository Insurance. The remaining balance of $1,403,567 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.

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: TRANSFERS

Transfer are used to 1) move unrestricted general fund revenues to finance various programs, 2) move sales tax revenues to fund programs and projects, and 3) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due.

	Transfers In	Transfers Out
General		10
Highway distribution	10	
Sewer	145	
Garbage		145

CITY OF ELLENDALE
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, 2015:

	Balance January 1	Increases	Decreases	Balance December 31
Capital assets, being depreciated				
Governmental activities				
Infrastructure	4,218,021			4,218,021
Ellendale Acres	109,651			109,651
Bldgs and Improvements	1,821,453			1,821,453
Vehicles & Equipment	545,831			545,831
Total Cap Assets	6,694,956			6,694,956
Less accumulated depreciation for:				
Buildings & Improve	1,459,977	15,426		1,475,403
Vehicles & Equip	332,073	31,475		363,548
Infrastructure	276,504	69,126		345,630
Total Accumulated Dep	2,067,054	116,027		2,183,080
Total Cap Assets, Net	4,627,902			4,511,876
Capital assets, being depreciated				
Business-type activities				
Bldgs and Improvements	669,380			669,380
Vehicles & Equipment	358,237			358,237
Total Cap Assets	1,027,617			1,027,617
Less accumulated depreciation for:				
Buildings & Improve	485,560	7,212		497,772
Vehicles & Equip	190,370	46,512		236,882
Total Accumulated Dep	675,930	53,724		729,654
Total Cap Assets, Net	351,687			297,963

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

Governmental Activities:	
General government	15,426
Public safety	4,529
Public works	26,946
Infrastructure	69,126
Total	116,027
Business-type activities	
Water and sewer	53,724

NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in liabilities reported in long-term debt:

	Payable 2014	Increases	Decreases	Payable 2015	Due Within One Year
Bonds Payable	885,000		150,000	735,000	150,000
SRF Notes	554,000		30,000	519,000	35,000
TOTAL	1,439,000		180,000	1,254,000	

Debt payable at December 31, 2015, is comprised of the following individual issues:

Bonds Payable:			
Refunding improvement	05/01/2028	4.05-4.80%	175,000
Refunding improvement	05/01/2019	4.05-4.50%	560,000
Total			735,000

SRF NOTES PAYABLE

Refunding improvement	05/01/2028	2.50%	519,000

The annual long-term debt service requirements for bonds payable, as of December 31, 2015, are as follows:

GOVERNMENTAL ACTIVITIES

Year Ending	Bonds Payable		SRF Notes Payable	
December 31	Principal	Interest	Principal	Interest
2016	150,000	24,258	35,000	12,975
2017	150,000	19,373	35,000	12,100
2018	150,000	14,242	30,000	15,350
2019	150,000	8,867	37,000	10,350
2020	10,000	5,977	40,000	9,425
2021-2025	75,000	20,663	202,000	32,125
2026-2028	50,000	3,840	135,000	6,750
TOTAL	735,000	97,220	519,000	94,950

NOTE 8.DEFICIT FUND BALANCE

The following fund balances had deficits at December 31, 2015:
Motor vehic 1,377 Will be eliminated with fees.
Equip repl 46,838 Will be eliminated with taxes/transfers.
Tif district131,466 Will be eliminated with taxes/transfers.

NOTE 9: PENSION PLANS

NORTH DAKOTA PUBLIC EMPLOYEE RETIREMENT SYSTEM (NDPERS)

The City participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. DESCRIPTION OF PENSION PLAN

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the governor, one member appointed by the Attorney General; one member appointed by the State Health Officer, three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

B. PENSION BENEFITS

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

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

C. DEATH AND DISABILITY BENEFITS

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

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

D. REFUNDS OF MEMBER ACCOUNT BALANCE

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

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

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

E. MEMBER AND EMPLOYER CONTRIBUTIONS

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

F. PENSION EXPENSE RELATED TO PENSIONS

$26,103 reported as expense related to pensions resulting from Employer contributions for the year ended December 31, 2015.

Actuarial assumptions. The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	0.90%
Global Real Assets	20%	5.38%
Cash equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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

NOTE 11: CONTINGENCIES

The City has agreed to an operation and maintenance deficit agreement for the Ellendale Housing Authority. This agreement guarantees the City will reimburse the Authority all amounts incurred for operating expenses if the Authority has insufficient funds in its operating account. The Authority agrees to reimburse the City for funds advanced when it has the funds available.

NOTE 12: 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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability and automobile insurance coverage. The coverage by NDIRF 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 ELLENDALE
FUND BALANCE
DECEMBER 31, 2015

	BEGINNING BALANCE	REVENUES	EXPENSES	TRANSFERS IN (OUT)	END BALANCE
100 GENERAL FUND	12,287.44	377,513.29	383,625.02	(10.00)	6,165.71
201 HIGHWAY DISTRIBUTION	103,699.20	121,335.89	220,502.56	10.00	4,542.53
203 SHARE COST IMPROVEMENT	39,589.71	31,747.87	29,003.27		42,334.31
204 SPEC ASSESS DEFICIENCY	84,186.78	492.07			84,678.85
206 EMERGENCY	16,078.52	144.53			16,223.05
209 EQUIPMENT REPLACEMENT	49,370.69	30,799.49	127,008.07		(46,837.89)
212 JOB DEVELOPMENT AUTHORI	116,457.08	118,781.93	135,507.21		99,731.80
215 PUBLIC BUILDINGS	16,923.04	361.01	4,499.05		12,785.00
220 TOURISM	12,529.85	23,389.08	19,416.42		16,502.51
515 MOTOR VEHICLE	(6,634.40)	38,472.96	33,215.36		(1,376.80)
625 CAPITAL IMPROVEMENT	164,874.25	31,055.89			195,930.14
701 TIF DISTRICT	(141,584.50)	16,686.00	6,567.50		(131,466.00)
0 CEMETERY ROAD	282.59	-	282.59		-
703 RECREATION	74,303.34	5,047.31	123.61		79,227.04
704 LIBRARY	57,203.15	15,550.55	20,773.49		51,980.21
705 AIRPORT	182,863.88	360,692.73	357,892.59		185,664.02
710 VENTURE	67,481.08	426.83			67,907.91
TOTAL SPECIAL REVENUE	837,624.26	794,984.14	954,791.72	10.00	677,826.68
337 ELLENDALE ACRES	31,008.69				31,008.69
430 NORTH PORT	18,119.70	114.71			18,234.41
426 STREET 2008-1 CONSTRUCTIOI	13,881.73		13,881.73		0.00
TOTAL CAPITAL PROJECTS	63,010.12	114.71	13,881.73	-	49,243.10
338 SEWER 2008-1	142,842.89	72,362.44	51,620.00		163,585.33
315 STREET 2008-1	60,644.82	166,001.31	161,540.00		65,106.13
TOTAL DEBT SERVICE	203,487.71	238,363.75	213,160.00	-	228,691.46
TOTAL FUND BALANCE	1,116,409.53	1,410,975.89	1,565,458.47	-	961,926.95
ENTERPRISE FUNDS:					
501 WATER OPERATING	121,127.09	240,353.81	224,746.48		136,734.42
502 SEWER	55,949.69	79,554.97	84,734.79	144.91	50,914.78
503 GARBAGE	64,634.77	210,643.93	190,096.89		85,181.81
505 PENALTY	5,956.38	2,074.05	325.00		7,705.43
508 METER	14,693.05	29,100.62			43,793.67
510 SURCHARGE	229,035.40	1,452.75			230,488.15
520 AMBULANCE	9,148.91	220,958.76	180,037.94	(144.91)	49,924.82
521 AMBULANCE REPLACEMENT	(45,620.95)	19,956.39	1,413.00		(27,077.56)
525 PERPETUAL CARE FUND	101,820.31	12,154.40			113,974.71
TOTAL ENTERPRISE	556,744.65	816,249.68	681,354.10	-	691,640.23
CITY TOTAL	1,673,154.18	2,227,225.57	2,246,812.57	-	1,653,567.18

CITY OF ELLENDALE

REPORTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

DECEMBER 31, 2015

City of Ellendale
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Harold J. Rotunda

Certified Public Accountant

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 Ellendale
Ellendale, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ellendale as of and for the year ended December 31, 2015 , and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Ellendale'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 (2015-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ellendale'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 Ellendale's response to the finding identified in my audit is described in the accompanying schedule of findings. City of Ellendale'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
November 14, 2016

CITY OF ELLENDALE
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

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. 2015-1

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.

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.