

# **AUDIT REPORT**

CITY OF GLADSTONE  
Gladstone, North Dakota

For the Years Ended December 31, 2015 and 2014

**RATH & MEHRER, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF GLADSTONE  
Gladstone, North Dakota

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For the Years Ended December 31, 2015 and 2014

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CITY OF GLADSTONE  
Gladstone, North Dakota

CITY OFFICIALS

Kurtis Martin	Mayor
Darcy Fossum	Council Member
Chase Fred	Council Member
Vicki Nogosek	Council Member
Darrell Sadowsky	Council Member
Maureen Roden	Auditor

# Rath & Mehler

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Gladstone  
Gladstone, North Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Gladstone, Gladstone, North Dakota, as of and for the years ended December 31, 2015 and 2014, 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

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 judgement, 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 city'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 city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities and each major fund of the City of Gladstone, Gladstone, North Dakota, as of December 31, 2015 and 2014, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

**Basis of Accounting**

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

**Other Matters**

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information and the schedules of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information and the schedules of fund activity arising from cash transactions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the management's discussion and analysis, budgeting comparison information and the schedules of fund activity arising from cash transactions are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2016 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

*Rath and Mehrer*

Rath and Mehrer, P.C.

Bismarck, North Dakota

June 10, 2016

CITY OF GLADSTONE

Management's Discussion and Analysis

December 31, 2015 and 2014

The Management's Discussion and Analysis (MD&A) of the City of Gladstone's financial performance provides an overall review of the city's financial activities for the fiscal years ended December 31, 2015 and 2014. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

The MD&A is a new element of the Required Supplementary Information specified in the Government Accounting Standards Board's (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments". Certain comparative information between the current fiscal year and the prior year is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the year ended December 31, 2015 are as follows:

- \* Total net position of the city increased \$835,631 as a result of the current year's operations. Net position of the governmental activities increased \$1,061,362 and net position of the business-type activities decreased \$225,732.
- \* Governmental net position totaled \$2,061,977 and business-type net position totaled (\$44,237).
- \* Total revenues from all sources were \$1,256,365 for governmental activities and \$94,776 for business-type activities.
- \* Total expenses were \$195,003 for governmental activities and \$320,508 for business-type activities.
- \* The city's general fund had \$1,229,874 in total revenues and \$162,378 in total expenditures. Overall, the general fund balance increased by \$1,067,496 for the year ended December 31, 2015.

Key financial highlights for the year ended December 31, 2014 are as follows:

- \* Total net position of the city increased \$182,620 as a result of the current year's operations. Net position of the governmental activities increased \$201,124 and net position of the business-type activities decreased \$18,503.
- \* Governmental net position totaled \$1,000,615 and business-type net position totaled \$181,495.
- \* Total revenues from all sources were \$331,840 for governmental activities and \$94,218 for business-type activities.
- \* Total expenses were \$130,717 for governmental activities and \$112,721 for business-type activities.
- \* The city's general fund had \$303,293 in total revenues and \$98,105 in total expenditures. Overall, the general fund balance increased by \$205,188 for the year ended December 31, 2014.

## USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the city as a financial whole. The statements then proceed to provide an increasingly detailed look at financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole city, presenting both an aggregate view of the city's finances and a longer-term view of those finances. These statements present information as follows:

- \* Governmental activities - this includes most of the city's basic services which are primarily supported by property taxes, user fees and intergovernmental revenues.
- \* Business-type activities - this includes those services which are intended to recover all or a significant part of their costs through user fees.

Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

## REPORTING ON THE CITY AS A WHOLE

### Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the years ended December 31, 2015 and 2014?"

The Statement of Net Position presents information on all the city's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the city is improving or deteriorating.

The Statement of Activities presents information on how the city's net position changed during the fiscal year. This statement is presented using the modified cash basis of accounting. This basis recognizes revenues and expenses when they result from cash transactions with provisions for depreciation of capital assets, and issuance of and payments made on long-term debt issues.

These two statements report the city's net position and changes in that position. This change in net position is important because it tells the reader whether, for the city as a whole, the financial position of the city has improved or deteriorated. The causes of this change may be the result of many factors, some financial and some not.

In the Statement of Net Position and the Statement of Activities, the city reports governmental and business-type activities. Governmental activities are the activities where most of the city's programs and services are reported including, but not limited to, general government, public safety, streets and public works and debt service. Business-type activities are where the city's enterprise services are reported including, but not limited to, water, sewer and garbage.

#### **REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS**

##### Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, highway tax fund and refunding improvement bonds of 2004 fund are considered "major governmental funds". The city's utilities fund is considered a "major enterprise fund".

#### **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Table I provides a summary of the city's net position as of December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

As indicated in the financial highlights above, the city's net position increased by \$835,631 and \$182,620 for the years ended December 31, 2015 and 2014, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2015, the city's net position of \$2,017,740 is segregated into three separate categories. Net investment in capital assets represents 19% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 8% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 73% of the city's net position and is available to meet the city's ongoing obligations.



Table I

Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,691,225	
Capital Assets (net of accumulated depreciation)	370,752	20,666
Total Assets	<u>2,061,977</u>	<u>20,666</u>
<u>Liabilities</u>		
Current Liabilities		64,903
<u>Net Position</u>		
Net Investment in Capital Assets	370,752	20,666
Restricted	154,170	
Unrestricted	1,537,055	(64,903)
Total Net Position	<u>2,061,977</u> =====	<u>(44,237)</u> =====

As of December 31, 2014, the city's net position of \$1,182,110 is segregated into three separate categories. Net investment in capital assets represents 35% of the city's total net position. It should be noted that these assets are not available for future spending. The restricted component of net position represents 11% of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position represents 54% of the city's net position and is available to meet the city's ongoing obligations.

Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	604,489	160,162
Capital Assets (net of accumulated depreciation)	396,126	21,333
Total Assets	<u>1,000,615</u>	<u>181,495</u>
<u>Net Position</u>		
Net Investment in Capital Assets	396,126	21,333
Restricted	134,930	
Unrestricted	469,559	160,162
Total Net Position	<u>1,000,615</u> =====	<u>181,495</u> =====

Net Position  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	443,051	177,998
Capital Assets (net of accumulated depreciation)	399,920	22,000
Total Assets	842,971	199,998
<u>Liabilities</u>		
Current Liabilities	43,480	
<u>Net Position</u>		
Net Investment in Capital Assets	356,440	22,000
Restricted	178,680	
Unrestricted	264,371	177,998
Total Net Position	799,491	199,998

Table II shows the changes in net position for the fiscal years ended December 31, 2015 and 2014. A comparative analysis of city-wide data is presented for both current years and prior year.

Table II

Changes in Net Position  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	9,224	94,776
Operating Grants and Contributions	1,038,845	
<u>General Revenues:</u>		
Property Taxes	24,065	
Other Taxes	112,389	
Intergovernmental - Unrestricted	29,682	
Interest Earnings and Other Revenue	35,640	
Gain on Sale of Capital Assets	6,520	
Total Revenues	1,256,365	94,776
<u>Expenses</u>		
General Government	65,250	
Streets and Public Works	95,714	
Culture and Recreation	33,039	
Other	1,000	6,401
Water		102,951
Sewer		184,983
Garbage		26,173
Total Expenses	195,003	320,508
Net Change in Position	1,061,362	(225,732)

Property taxes constituted 2%, other taxes 8%, unrestricted intergovernmental 2%, operating grants and contributions 77%, and charges for services made up 8% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 13%, streets and public works 19%, and enterprise 62% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	4,197	94,218
Operating Grants and Contributions	35,972	
<u>General Revenues:</u>		
Property Taxes	17,535	
Other Taxes	232,982	
Intergovernmental - Unrestricted	26,561	
Interest Earnings and Other Revenue	14,594	
<b>Total Revenues</b>	<u>331,840</u>	<u>94,218</u>
<b>Expenses</b>		
General Government	58,400	
Public Safety	1,000	
Streets and Public Works	65,609	
Culture and Recreation	2,961	
Other	1,000	2,718
Interest on Long-Term Debt	1,746	
Water		78,028
Sewer		1,640
Garbage		30,335
<b>Total Expenses</b>	<u>130,717</u>	<u>112,721</u>
<b>Net Change in Position</b>	<u>201,124</u>	<u>(18,503)</u>
	=====	=====

Property taxes constituted 4%, other taxes 55%, unrestricted intergovernmental 6%, operating grants and contributions 8%, and charges for services made up 23% of the total revenues of all activities of the city for the fiscal year ended December 31, 2014.

General government constituted 24%, streets and public works 27%, and enterprise 46% of total expenses for all activities during the fiscal year ended December 31, 2014.

Changes in Net Position  
As of December 31, 2013

	Governmental	Business- Type
<b>Revenues</b>		
<u>Program Revenues:</u>		
Charges for Services	3,251	90,663
Operating Grants and Contributions	82,667	
<u>General Revenues:</u>		
Property Taxes	11,831	
Other Taxes	157,552	
Intergovernmental - Unrestricted	27,128	
Interest Earnings and Other Revenue	12,031	
 Total Revenues	294,461	90,663
<b>Expenses</b>		
General Government	176,277	
Public Safety	4,071	
Streets and Public Works	55,282	
Other	1,025	
Interest on Long-Term Debt	3,657	
Water		52,805
Garbage		26,609
 Total Expenses	240,312	79,414
 Net Change in Position	54,149	11,248

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table III shows the total cost of services and the net cost of services for governmental activities. That is, it identifies the cost of these services supported by tax revenue and other unrestricted revenues.

Table III

Total and Net Cost of Services  
As of December 31, 2015

	Total Cost Year Ended Dec. 31, 2015	Net Cost Year Ended Dec. 31, 2015
General Government	65,250	56,026
Streets and Public Works	95,714	(943,132)
Culture and Recreation	33,039	33,039
Other	1,000	1,000
 Total Expenses	195,003	(853,066)

Total and Net Cost of Services  
As of December 31, 2014

	Total Cost Year Ended Dec. 31, 2014	Net Cost Year Ended Dec. 31, 2014
General Government	58,400	54,204
Public Safety	1,000	1,000
Streets and Public Works	65,609	45,046
Culture and Recreation	2,961	2,961
Other	1,000	1,000
Interest on Long-Term Debt	1,746	(13,663)
 Total Expenses	130,717	90,548

**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$1,256,365 and expenditures of \$169,629 for the year ended December 31, 2015. For the year ended December 31, 2014, the city's governmental funds had total revenue of \$331,840 and expenditures of \$170,403. As of December 31, 2015, the unassigned fund balance of the city's general fund was \$518,017. As of December 31, 2014, the unassigned fund balance of the city's general fund was \$469,559.

**GENERAL FUND BUDGET HIGHLIGHTS**

During the course of fiscal years 2015 and 2014, the city did not amend the general fund budgets.

Actual revenue for the year ended December 31, 2015 was \$1,059,867 more than budgeted. This budget variance was due to the city not including a budget estimate for the surge funding received from the State of North Dakota. Actual expenditures for the year ended December 31, 2015 were under budget by \$9,679.

Actual revenue for the year ended December 31, 2014 was \$192,090 more than budgeted. The budget variance was the result of the city underestimating actual collections for oil and gas production taxes. Actual expenditures for the year ended December 31, 2014 were under budget by \$26,702. This budget variance was the result of an overestimation of general government expenditures.

**CAPITAL ASSETS**

As of December 31, 2015 and 2014, the city had \$391,418 and \$417,459, respectively, invested in capital assets. The following tables show the balances, for governmental activities, as of December 31, 2015, 2014 and 2013.

Table IV

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	232,004	20,666
Machinery and Vehicles	138,748	
Total (net of depreciation)	<u>370,752</u>	<u>20,666</u>

This total represents a decrease of \$26,041 in capital assets from January 1, 2015.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	244,815	21,333
Machinery and Vehicles	151,311	
Total (net of depreciation)	396,126	21,333
	=====	=====

This total represents a decrease of \$4,461 in capital assets from January 1, 2014.

Capital Assets  
(Net of Accumulated Depreciation)  
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Buildings and Infrastructure	257,626	22,000
Machinery and Vehicles	142,294	
Total (net of depreciation)	399,920	22,000
	=====	=====

For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 5 to the audited financial statements which follow this analysis.

**DEBT ADMINISTRATION**

As of December 31, 2015 and 2014, the city had no outstanding debt. During fiscal years 2015 and 2014, the city did not issue any new long-term debt obligations.

For a detailed breakdown of the long-term debt, readers are referred to Note 6 to the audited financial statements which follow this analysis.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our taxpayers and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. Anyone who has questions about information contained in this report or who is interested in receiving additional information is encouraged to contact Maureen Roden, City Auditor, Gladstone, ND.

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2015

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash, Cash Equivalents and Investments	1,626,322.09		1,626,322.09
Interfund Receivable	64,903.08		64,903.08
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	232,004.00	20,666.00	252,670.00
Machinery and Vehicles	138,748.00		138,748.00
Total Capital Assets	370,752.00	20,666.00	391,418.00
 Total Assets	 2,061,977.17	 20,666.00	 2,082,643.17
<b>LIABILITIES:</b>			
Interfund Payable		64,903.08	64,903.08
<b>NET POSITION:</b>			
Net Investment in Capital Assets	370,752.00	20,666.00	391,418.00
Restricted for:			
Debt Service	8,817.80		8,817.80
Special Purposes	145,352.41		145,352.41
Unrestricted	1,537,054.96	(64,903.08)	1,472,151.88
 Total Net Position	 2,061,977.17	 (44,237.08)	 2,017,740.09

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis  
December 31, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash, Cash Equivalents and Investments	604,488.80	160,161.70	764,650.50
Capital Assets (net of accumulated depreciation):			
Buildings and Infrastructure	244,815.00	21,333.00	266,148.00
Machinery and Vehicles	151,311.00		151,311.00
Total Capital Assets	396,126.00	21,333.00	417,459.00
<b>Total Assets</b>	<b>1,000,614.80</b>	<b>181,494.70</b>	<b>1,182,109.50</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	396,126.00	21,333.00	417,459.00
Restricted for:			
Debt Service	8,817.80		8,817.80
Special Purposes	126,112.20		126,112.20
Unrestricted	469,558.80	160,161.70	629,720.50
<b>Total Net Position</b>	<b>1,000,614.80</b>	<b>181,494.70</b>	<b>1,182,109.50</b>

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



CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2015

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<b>Functions/Programs</b>					
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General Government	65,249.54	9,223.59	(56,025.95)		(56,025.95)
Streets and Public Works	95,713.87		943,131.57		943,131.57
Culture and Recreation	33,039.29		(33,039.29)		(33,039.29)
Other	1,000.00		(1,000.00)		(1,000.00)
<b>Total Governmental Activities</b>	<b>195,002.70</b>	<b>9,223.59</b>	<b>1,038,845.44</b>	<b>853,066.33</b>	<b>853,066.33</b>
<b>Business-Type Activities:</b>					
Water	102,951.18	32,081.44		(70,869.74)	(70,869.74)
Sewer	184,983.26	18,096.13		(166,887.13)	(166,887.13)
Garbage	26,172.69	32,753.64		6,580.95	6,580.95
Other	6,401.11	11,845.25		5,444.14	5,444.14
<b>Total Business-Type Activities</b>	<b>320,508.24</b>	<b>94,776.46</b>		<b>(225,731.78)</b>	<b>(225,731.78)</b>
<b>Total Primary Government</b>	<b>515,510.94</b>	<b>104,000.05</b>	<b>1,038,845.44</b>	<b>853,066.33</b>	<b>(225,731.78)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property taxes; levied for general purposes			23,636.62		23,636.62
Property taxes; levied for special purposes			427.89		427.89
Cigarette taxes			775.73		775.73
Telecommunications taxes			923.83		923.83
Oil and gas production taxes			110,689.87		110,689.87
Intergovernmental revenue not restricted to specific programs			29,681.80		29,681.80
Earnings on investments and other revenue			35,640.30		35,640.30
Gain on sale of capital assets			6,520.00		6,520.00
<b>Total General Revenues</b>			<b>208,296.04</b>		<b>208,296.04</b>
<b>Change in Net Position</b>			<b>1,061,362.37</b>	<b>(225,731.78)</b>	<b>835,630.59</b>
<b>Net Position - January 1</b>			<b>1,000,614.80</b>	<b>181,494.70</b>	<b>1,182,109.50</b>
<b>Net Position - December 31</b>			<b>2,061,977.17</b>	<b>(44,237.08)</b>	<b>2,017,740.09</b>

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2014

	Net (Expense) Revenue and Changes in Net Position				
	Expenses	Program Revenues		Primary Government	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<b>Functions/Programs</b>					
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
General Government	58,400.28	4,196.59		(54,203.69)	(54,203.69)
Public Safety	1,000.00			(1,000.00)	(1,000.00)
Streets and Public Works	65,609.38		20,562.96	(45,046.42)	(45,046.42)
Culture and Recreation	2,960.85			(2,960.85)	(2,960.85)
Other	1,000.00			(1,000.00)	(1,000.00)
Interest on Long-Term Debt	1,746.38		15,409.16	13,662.78	13,662.78
<b>Total Governmental Activities</b>	<b>130,716.89</b>	<b>4,196.59</b>	<b>35,972.12</b>	<b>(90,548.18)</b>	<b>(90,548.18)</b>
<b>Business-Type Activities:</b>					
Water	78,028.18	30,104.93		(47,923.25)	(47,923.25)
Sewer	1,640.00	16,777.13		15,137.13	15,137.13
Garbage	30,334.69	31,115.56		780.87	780.87
Other	2,718.16	16,220.14		13,501.98	13,501.98
<b>Total Business-Type Activities</b>	<b>112,721.03</b>	<b>94,217.76</b>		<b>(18,503.27)</b>	<b>(18,503.27)</b>
<b>Total Primary Government</b>	<b>243,437.92</b>	<b>98,414.35</b>	<b>35,972.12</b>	<b>(90,548.18)</b>	<b>(18,503.27)</b>
=====					
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property taxes; levied for general purposes			12,456.72		12,456.72
Property taxes; levied for special purposes			5,078.25		5,078.25
Cigarette taxes			787.88		787.88
Telecommunications taxes			923.83		923.83
Oil and gas production taxes			231,270.09		231,270.09
Intergovernmental revenue not restricted to specific programs			26,560.96		26,560.96
Earnings on investments and other revenue			14,594.04		14,594.04
<b>Total General Revenues</b>			<b>291,671.77</b>		<b>291,671.77</b>
<b>Change in Net Position</b>			<b>201,123.59</b>	<b>(18,503.27)</b>	<b>182,620.32</b>
<b>Net Position - January 1</b>			<b>799,491.21</b>	<b>199,997.97</b>	<b>999,489.18</b>
<b>Net Position - December 31</b>			<b>1,000,614.80</b>	<b>181,494.70</b>	<b>1,182,109.50</b>
=====					

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2015

	Major Funds			Total
	General	Highway Tax	Ref. Imp. Bonds of 2004	Governmental Funds
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	1,472,151.88	145,352.41	8,817.80	1,626,322.09
Interfund Receivable	64,903.08			64,903.08
<hr/>				
Total Assets	1,537,054.96	145,352.41	8,817.80	1,691,225.17
<hr style="border-top: 1px dashed black;"/>				
<b>FUND BALANCES:</b>				
Restricted for:				
Streets and Public Works		145,352.41		145,352.41
Debt Service			8,817.80	8,817.80
Assigned to:				
Surge Funds	1,019,038.18			1,019,038.18
Unassigned	518,016.78			518,016.78
<hr/>				
Total Fund Balances	1,537,054.96	145,352.41	8,817.80	1,691,225.17
<hr style="border-top: 1px dashed black;"/>				

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Balance Sheet - Modified Cash Basis  
Governmental Funds  
December 31, 2014

	Major Funds			Total Governmental Funds
	General	Highway Tax	Ref. Imp. Bonds of 2004	
<b>ASSETS:</b>				
Cash, Cash Equivalents and Investments	469,558.80	126,112.20	8,817.80	604,488.80
<b>FUND BALANCES:</b>				
Restricted for:				
Streets and Public Works		126,112.20		126,112.20
Debt Service			8,817.80	8,817.80
Unassigned	469,558.80			469,558.80
Total Fund Balances	469,558.80	126,112.20	8,817.80	604,488.80

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2015

Total Fund Balances for Governmental Funds		1,691,225.17
Total net position reported for government 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 the governmental funds.		
Cost of Capital Assets	592,202.00	
Less Accumulated Depreciation	(221,450.00)	
Net Capital Assets	<hr/>	370,752.00
Total Net Position of Governmental Activities		<hr/> <u>2,061,977.17</u> =====

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Reconciliation of Governmental Funds Balance Sheet  
to the Statement of Net Position - Modified Cash Basis  
For the Year Ended December 31, 2014

Total Fund Balances for Governmental Funds		604,488.80
Total net position reported for government 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 the governmental funds.		
Cost of Capital Assets	610,202.00	
Less Accumulated Depreciation	(214,076.00)	
Net Capital Assets	<hr/>	396,126.00
Total Net Position of Governmental Activities		<hr/> <u>1,000,614.80</u>

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2015

	Major Funds			Total Governmental Funds
	General	Highway Tax	Ref. Imp. Bonds of 2004	
<u>Revenues:</u>				
Taxes	24,824.90			24,824.90
Special Assessments	5,542.01			5,542.01
Licenses, Permits and Fees	9,223.59			9,223.59
Intergovernmental	1,161,321.85	19,970.70		1,181,292.55
Miscellaneous	28,962.02	6,520.00		35,482.02
<b>Total Revenues</b>	<b>1,229,874.37</b>	<b>26,490.70</b>		<b>1,256,365.07</b>
<u>Expenditures:</u>				
Current:				
General Government	65,099.54			65,099.54
Streets and Public Works	64,239.38	7,250.49		71,489.87
Culture and Recreation	33,039.29			33,039.29
<b>Total Expenditures</b>	<b>162,378.21</b>	<b>7,250.49</b>		<b>169,628.70</b>
<b>Net Change in Fund Balances</b>	<b>1,067,496.16</b>	<b>19,240.21</b>		<b>1,086,736.37</b>
<b>Fund Balance - January 1</b>	<b>469,558.80</b>	<b>126,112.20</b>	<b>8,817.80</b>	<b>604,488.80</b>
<b>Fund Balance - December 31</b>	<b>1,537,054.96</b>	<b>145,352.41</b>	<b>8,817.80</b>	<b>1,691,225.17</b>

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Year Ended December 31, 2014

	Major Funds			Total Governmental Funds
	General	Highway Tax	Ref. Imp. Bonds of 2004	
<b>Revenues:</b>				
Taxes	18,454.65			18,454.65
Special Assessments	7,428.75		7,980.41	15,409.16
Licenses, Permits and Fees	4,196.59			4,196.59
Intergovernmental	258,940.61	20,567.11		279,507.72
Miscellaneous	14,272.36			14,272.36
<b>Total Revenues</b>	<b>303,292.96</b>	<b>20,567.11</b>	<b>7,980.41</b>	<b>331,840.48</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	58,250.28			58,250.28
Public Safety	1,000.00			1,000.00
Streets and Public Works		35,805.38		35,805.38
Culture and Recreation	2,960.85			2,960.85
Capital Outlay	27,160.00			27,160.00
<b>Debt Service:</b>				
Principal	8,479.80		35,000.00	43,479.80
Interest and Service Charges	254.38		1,492.00	1,746.38
<b>Total Expenditures</b>	<b>98,105.31</b>	<b>35,805.38</b>	<b>36,492.00</b>	<b>170,402.69</b>
<b>Net Change in Fund Balances</b>	<b>205,187.65</b>	<b>(15,238.27)</b>	<b>(28,511.59)</b>	<b>161,437.79</b>
<b>Fund Balance - January 1</b>	<b>264,371.15</b>	<b>141,350.47</b>	<b>37,329.39</b>	<b>443,051.01</b>
<b>Fund Balance - December 31</b>	<b>469,558.80</b>	<b>126,112.20</b>	<b>8,817.80</b>	<b>604,488.80</b>

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



CITY OF GLADSTONE  
Gladstone, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	1,086,736.37
--	--------------

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

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

	0.00	
Current Year Capital Outlay	(25,374.00)	(25,374.00)
Current Year Depreciation Expense	<hr/>	<hr/>
Change in Net Position of Governmental Activities		1,061,362.37
		=====

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis  
For the Year Ended December 31, 2014

Net Change in Fund Balances - Total Governmental Funds	161,437.79
--	------------

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

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

Current Year Capital Outlay	27,160.00	
Current Year Depreciation Expense	(30,954.00)	(3,794.00)

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

Debt Proceeds	0.00	
Repayment of Debt	43,479.80	43,479.80

Change in Net Position of Governmental Activities	201,123.59

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Fund  
December 31, 2015

	Enterprise Fund
	-----
	Utilities
	-----
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	-0-
	-----
<u>Noncurrent Assets:</u>	
Capital Assets (net of accumulated depr):	
Buildings and Infrastructure	20,666.00
	-----
Total Assets	20,666.00
	=====
<u>LIABILITIES</u>	
<u>Current Liabilities:</u>	
Interfund Payable	64,903.08
	-----
<u>NET POSITION</u>	
Net Investment in Capital Assets	20,666.00
Unrestricted	(64,903.08)
	-----
Total Net Position	(44,237.08)
	=====

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Net Position - Modified Cash Basis  
Proprietary Fund  
December 31, 2014

	Enterprise Fund
	Utilities
<b><u>ASSETS</u></b>	
<b><u>Current Assets:</u></b>	
Cash and Cash Equivalents	160,161.70
<b><u>Noncurrent Assets:</u></b>	
Capital Assets (net of accumulated depr):	
Buildings and Infrastructure	21,333.00
<b>Total Assets</b>	<b>181,494.70</b>
<b><u>NET POSITION</u></b>	
Net Investment in Capital Assets	21,333.00
Unrestricted	160,161.70
<b>Total Net Position</b>	<b>181,494.70</b>

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Fund  
For the Year Ended December 31, 2015

	Enterprise Fund
	Utilities
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Collections	32,081.44
Sewer Collections	18,096.13
Garbage Collections	32,753.64
Other Collections	11,845.25
Total Operating Revenues	94,776.46
<u>Operating Expenses:</u>	
Water	102,284.18
Sewer	184,983.26
Garbage	26,172.69
Other	6,401.11
Depreciation	667.00
Total Operating Expenses	320,508.24
Operating Income	(225,731.78)
Net Position - January 1	181,494.70
Net Position - December 31	(44,237.08)

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis  
Proprietary Fund  
For the Year Ended December 31, 2014

	Enterprise Fund
	Utilities
<u>Operating Revenues:</u>	
Charges for Sales and Services:	
Water Collections	30,104.93
Sewer Collections	16,777.13
Garbage Collections	31,115.56
Other Collections	16,220.14
Total Operating Revenues	94,217.76
<u>Operating Expenses:</u>	
Water	77,361.18
Sewer	1,640.00
Garbage	30,334.69
Other	2,718.16
Depreciation	667.00
Total Operating Expenses	112,721.03
Operating Income	(18,503.27)
Net Position - January 1	199,997.97
Net Position - December 31	181,494.70

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2015

	Enterprise Fund
	Utilities
<u>Cash flows from operating activities:</u>	
Receipts from customers	94,776.46
Payments to suppliers and employees	(319,841.24)
	(225,064.78)
<u>Cash flows from noncapital financing activities:</u>	
Interfund loan transactions	64,903.08
	(160,161.70)
Net increase (decrease) in cash and cash equivalents	(160,161.70)
	160,161.70
Cash and cash equivalents, January 1	160,161.70
	-0-
	=====
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	(225,731.78)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	667.00
	(225,064.78)
	=====

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Statement of Cash Flows - Modified Cash Basis  
Proprietary Funds  
For the Year Ended December 31, 2014

	Enterprise Fund
	Utilities
<u>Cash flows from operating activities:</u>	
Receipts from customers	94,217.76
Payments to suppliers and employees	(112,054.03)
	(17,836.27)
Net cash provided (used) by operating activities	(17,836.27)
Cash and cash equivalents, January 1	177,997.97
Cash and cash equivalents, December 31	160,161.70
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	(18,503.27)
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>	
Depreciation expense	667.00
Net cash provided (used) by operating activities	(17,836.27)

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



CITY OF GLADSTONE  
Gladstone, North Dakota

Notes to the Financial Statements  
December 31, 2015 and 2014

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Gladstone operates under a city council form of government. The financial statements of the city have been prepared on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

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

Based on these criteria, there are no component units to be included within the City of Gladstone as a reporting entity.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees 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:* The fund financial statements provide information about the city's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

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

The city reports the following major governmental funds:

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

*Highway Tax Fund.* This fund accounts for the state highway distribution tax to be used for street repairs and maintenance.

*Refunding Imp. Bonds of 2004 Fund.* This fund accounts for the accumulation of resources to be used for the payment of long-term debt principal and interest related to the Refunding Improvement Bonds of 2004.

The city reports the following major enterprise funds:

*Utilities Fund.* This fund accounts for the activities of the city's water distribution system, sewage collection system and garbage collection system.

#### C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

#### Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b 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:

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

- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (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 position.

#### Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a 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, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

#### D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid short-term investments with original maturities of three months or less.

Investments consist of certificates of deposit stated at cost.

#### E. Capital Assets

Capital assets include plant and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	25 to 100 years
Machinery and Vehicles	8 to 20 years

#### F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

#### 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 position. 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 Equity

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

**Fund Balance** - Generally, fund balance represents the difference between the current assets and current liabilities. In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the city is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balances are classified as follows:

**Nonspendable** - Fund balances are reported as nonspendable when amounts cannot be spent because they are either (a) not in spendable form (i.e., items that are not expected to be converted to cash such as inventories or prepaid expenses) or (b) legally or contractually required to be maintained intact (i.e., endowment funds).

**Restricted** - Fund balances are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments (i.e., funds restricted by state statute, unspent bond proceeds, grants earned but not spent, debt covenants or taxes raised for a specific purpose).

**Committed** - Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by formal action of the city council through the adoption of a resolution. The city council also may modify or rescind the commitment.

**Assigned** - Fund balances are reported as assigned when amounts are constrained by the city's intent to be used for specific purposes, but are neither restricted nor committed.

**Unassigned** - Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The city reports positive unassigned fund balance only in the general fund. Negative fund balances may be reported in all funds.

**Flow Assumptions** - When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the city's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the city's policy to use fund balance in the following order:

- \* Committed
- \* Assigned
- \* Unassigned

**Net Position** - Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the city has not spent) for the acquisition, construction or improvement of those assets. Net position is reported as restricted as described in the fund balance section above. All other net position is reported as unrestricted.

#### I. Interfund Transactions

In the governmental and proprietary 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.

In the government-wide financial statements, interfund transactions have been eliminated.

#### J. Use of Estimates

The preparation of financial statements in conformity with the special reporting framework (SRF) used by the city requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

Note 2 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 institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any 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 other securities approved by the banking board.

At December 31, 2015 the city's carrying amount of deposits was \$1,626,322 and the bank balance was \$1,629,012. Of the bank balance, \$290,484 was covered by Federal Depository Insurance. The remaining balance of \$1,338,528 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2014 the city's carrying amount of deposits was \$764,651 and the bank balance was \$767,908. Of the bank balance, \$290,467 was covered by Federal Depository Insurance. The remaining balance of \$477,441 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

- (1) 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.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
- (3) Certificates of deposit fully insured by the federal deposit insurance corporation.
- (4) Obligations of the State.

At December 31, 2015 the city held certificates of deposit in the amount of \$260,889, which are all considered deposits.

At December 31, 2014 the city held certificates of deposit in the amount of \$262,889, which are all considered deposits.

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

Property taxes 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 4 INTERFUND RECEIVABLE/PAYABLE

Interfund receivable/payable is created by a negative cash balance in the Utilities fund. The amount shown as an interfund payable represents the amount of negative cash in this fund. Interfund receivable/payable for the year ended December 31, 2015 is as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	64,903.08	
Utilities Fund		64,903.08

Note 5 CAPITAL ASSETS

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

	<u>2015</u>			
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	383,200			383,200
Machinery and Vehicles	227,002		18,000	209,002
<b>Total</b>	<u>610,202</u>		<u>18,000</u>	<u>592,202</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	138,385	12,811		151,196
Machinery and Vehicles	75,691	12,563	18,000	70,254
<b>Total</b>	<u>214,076</u>	<u>25,374</u>	<u>18,000</u>	<u>221,450</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>396,126</u>	<u>(25,374)</u>	<u>-0-</u>	<u>370,752</u>

2014

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Governmental Activities:</b>				
<i>Capital assets</i> <i>being depreciated:</i>				
Buildings and Infrastructure	383,200			383,200
Machinery and Vehicles	209,142	27,160	9,300	227,002
<b>Total</b>	<u>592,342</u>	<u>27,160</u>	<u>9,300</u>	<u>610,202</u>
<i>Less accumulated</i> <i>depreciation for:</i>				
Buildings and Infrastructure	125,574	12,811		138,385
Machinery and Vehicles	66,848	18,143	9,300	75,691
<b>Total</b>	<u>192,422</u>	<u>30,954</u>	<u>9,300</u>	<u>214,076</u>
<b>Governmental Activities</b> <b>Capital Assets, Net</b>	<u>399,920</u>	<u>(3,794)</u>	<u>-0-</u>	<u>396,126</u>
	=====	=====	=====	=====

2015

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets</i> <i>being depreciated:</i>				
Buildings and Infrastructure	50,000			50,000
<i>Less accumulated</i> <i>depreciation for:</i>				
Buildings and Infrastructure	28,667	667		29,334
<b>Business-type Activities</b> <b>Capital Assets, Net</b>	<u>21,333</u>	<u>(667)</u>	<u>-0-</u>	<u>20,666</u>
	=====	=====	=====	=====



<u>2014</u>				
	Balance			Balance
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>
<b>Business-type Activities:</b>				
<i>Capital assets</i>				
<i>being depreciated:</i>				
Buildings and Infrastructure	50,000			50,000
<hr/>				
<i>Less accumulated</i>				
<i>depreciation for:</i>				
Buildings and Infrastructure	28,000	667		28,667
<hr/>				
<b>Business-type Activities</b>				
Capital Assets, Net	22,000	(667)	-0-	21,333
<hr/>				

Depreciation expense was charged to functions/programs of the city as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
<u>Governmental Activities:</u>		
General Government	150	150
Streets and Public Works	24,224	29,804
Other	1,000	1,000
<hr/>		
Total	25,374	30,954
<hr/>		
<u>Business-type Activities:</u>		
Utilities	667	667
<hr/>		

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2014, the following changes occurred in liabilities reported in the long-term liabilities - Governmental Activities:

	Balance			Balance	Due Within
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Contract for Deed	8,480		8,480		
Special Assessment Bonds	35,000		35,000		
<hr/>					
Total	43,480	-0-	43,480	-0-	-0-
<hr/>					

Note 7 DEFICIT FUND BALANCE

The Utilities fund had a deficit balance of \$64,903.08 as of December 31, 2015. The city plans to eliminate this deficit with future revenue collections and/or transfers from other funds.

Note 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDRIF for its general liability, automobile and public assets insurance coverage. The coverage by NDRIF is limited to losses of \$1,000,000 per occurrence for general liability and \$500,000 for automobile; and \$214,132 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$79,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance.

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

CITY OF GLADSTONE  
Gladstone, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	20,706.47	20,706.47	24,824.90	4,118.43
Special Assessments			5,542.01	5,542.01
Licenses, Permits and Fees	15,977.00	15,977.00	9,223.59	(6,753.41)
Intergovernmental	133,324.00	133,324.00	1,161,321.85	1,027,997.85
Miscellaneous			28,962.02	28,962.02
<b>Total Revenues</b>	<b>170,007.47</b>	<b>170,007.47</b>	<b>1,229,874.37</b>	<b>1,059,866.90</b>
<u>Expenditures:</u>				
Current:				
General Government	167,057.00	167,057.00	65,099.54	101,957.46
Street and Public Works	5,000.00	5,000.00	64,239.38	(59,239.38)
Culture and Recreation			33,039.29	(33,039.29)
<b>Total Expenditures</b>	<b>172,057.00</b>	<b>172,057.00</b>	<b>162,378.21</b>	<b>9,678.79</b>
<b>Net Change in Fund Balances</b>	<b>(2,049.53)</b>	<b>(2,049.53)</b>	<b>1,067,496.16</b>	<b>1,069,545.69</b>
<b>Fund Balance - January 1</b>	<b>469,558.80</b>	<b>469,558.80</b>	<b>469,558.80</b>	
<b>Fund Balance - December 31</b>	<b>467,509.27</b>	<b>467,509.27</b>	<b>1,537,054.96</b>	<b>1,069,545.69</b>

CITY OF GLADSTONE  
Gladstone, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
General Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	16,651.89	16,651.89	18,454.65	1,802.76
Special Assessments			7,428.75	7,428.75
Licenses, Permits and Fees	30,944.00	30,944.00	4,196.59	(26,747.41)
Intergovernmental	63,607.00	63,607.00	258,940.61	195,333.61
Miscellaneous			14,272.36	14,272.36
<b>Total Revenues</b>	<b>111,202.89</b>	<b>111,202.89</b>	<b>303,292.96</b>	<b>192,090.07</b>
<u>Expenditures:</u>				
Current:				
General Government	122,307.00	122,307.00	58,250.28	64,056.72
Public Safety			1,000.00	(1,000.00)
Street and Public Works	2,500.00	2,500.00		2,500.00
Culture and Recreation			2,960.85	(2,960.85)
Capital Outlay			27,160.00	(27,160.00)
Debt Service:				
Principal			8,479.80	(8,479.80)
Interest			254.38	(254.38)
<b>Total Expenditures</b>	<b>124,807.00</b>	<b>124,807.00</b>	<b>98,105.31</b>	<b>26,701.69</b>
<b>Net Change in Fund Balances</b>	<b>(13,604.11)</b>	<b>(13,604.11)</b>	<b>205,187.65</b>	<b>218,791.76</b>
<b>Fund Balance - January 1</b>	<b>264,371.15</b>	<b>264,371.15</b>	<b>264,371.15</b>	
<b>Fund Balance - December 31</b>	<b>250,767.04</b>	<b>250,767.04</b>	<b>469,558.80</b>	<b>218,791.76</b>

CITY OF GLADSTONE  
Gladstone, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Highway Tax Fund  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Intergovernmental			19,970.70	19,970.70
Miscellaneous			6,520.00	6,520.00
<b>Total Revenues</b>			<b>26,490.70</b>	<b>26,490.70</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Streets and Public Works	90,000.00	90,000.00	7,250.49	82,749.51
<b>Net Change in Fund Balances</b>	<b>(90,000.00)</b>	<b>(90,000.00)</b>	<b>19,240.21</b>	<b>109,240.21</b>
<b>Fund Balance - January 1</b>	<b>126,112.20</b>	<b>126,112.20</b>	<b>126,112.20</b>	
<b>Fund Balance - December 31</b>	<b>36,112.20</b>	<b>36,112.20</b>	<b>145,352.41</b>	<b>109,240.21</b>

CITY OF GLADSTONE  
Gladstone, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis  
Highway Tax Fund  
For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Intergovernmental			20,567.11	20,567.11
<u>Expenditures:</u>				
Current:				
Streets and Public Works	60,000.00	60,000.00	35,805.38	24,194.62
Net Change in Fund Balances	(60,000.00)	(60,000.00)	(15,238.27)	44,761.73
Fund Balance - January 1	141,350.47	141,350.47	141,350.47	
Fund Balance - December 31	81,350.47	81,350.47	126,112.20	44,761.73

CITY OF GLADSTONE  
Gladstone, North Dakota

Notes to the Budgetary Comparison Schedules  
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

The governing board holds a public hearing where any taxpayer may testify in favor of, or against, any proposed expenditures or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7, the board adopts the final budget. The final budget must be filed with the county auditor by October 10. No expenditure shall be made, or liability incurred, in excess of the total appropriation by fund except as authorized by North Dakota Century Code Section 40-40-18. However, the governing board may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the official proceedings of the board.

Note 2 LEGAL COMPLIANCE

The governing board did not amend the budgets during the years ended December 31, 2015 and 2014.

CITY OF GLADSTONE  
Gladstone, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2015

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
<u>Major Governmental Funds</u>						
General Fund:						
Operating	469,558.80	210,836.19			162,378.21	518,016.78
Surge Funding		1,019,038.18				1,019,038.18
<b>Total General Fund</b>	<b>469,558.80</b>	<b>1,229,874.37</b>			<b>162,378.21</b>	<b>1,537,054.96</b>
Highway Tax	126,112.20	26,490.70			7,250.49	145,352.41
Refunding Imp. Bonds of 2004	8,817.80					8,817.80
<b>Total Major Governmental Funds</b>	<b>604,488.80</b>	<b>1,256,365.07</b>			<b>169,628.70</b>	<b>1,691,225.17</b>
<u>Major Enterprise Fund</u>						
Utilities	160,161.70	94,776.46			319,841.24	(64,903.08)
<b>Total All Funds</b>	<b>764,650.50</b>	<b>1,351,141.53</b>			<b>489,469.94</b>	<b>1,626,322.09</b>



CITY OF GLADSTONE  
Gladstone, North Dakota

Schedule of Fund Activity  
Arising from Cash Transactions  
For the Year Ended December 31, 2014

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
<u>Major Governmental Funds</u>						
General Fund	264,371.15	303,292.96			98,105.31	469,558.80
Highway Tax	141,350.47	20,567.11			35,805.38	126,112.20
Refunding Imp. Bonds of 2004	37,329.39	7,980.41			36,492.00	8,817.80
<b>Total Major Governmental Funds</b>	<b>443,051.01</b>	<b>331,840.48</b>			<b>170,402.69</b>	<b>604,488.80</b>
<u>Major Enterprise Fund</u>						
Utilities	177,997.97	94,217.76			112,054.03	160,161.70
<b>Total All Funds</b>	<b>621,048.98</b>	<b>426,058.24</b>			<b>282,456.72</b>	<b>764,650.50</b>

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

## INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Gladstone  
Gladstone, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Gladstone, Gladstone, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated June 10, 2016.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

## Compliance and Other Matters

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

## City's Response to Findings

The city's response to the findings identified in our audits are described in the accompanying *Schedule of Findings and Responses*. The city's response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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



Rath and Mehrer, P.C.

Bismarck, North Dakota

June 10, 2016

CITY OF GLADSTONE  
Gladstone, North Dakota

Schedule of Findings and Responses  
For the Years Ended December 31, 2015 and 2014

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis

Internal control over financial reporting:

\* Material weakness(es) identified?                   Yes              X   No

\* Significant deficiency(ies) identified?         X   Yes                   None Reported

Noncompliance Material to financial  
statements noted?                                        Yes              X   No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

*Condition:* The city has one person responsible for most accounting functions.

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

*Effect:* There is no segregation of duties as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger and prepare financial statements. This increases the risk of misstatement of the city's financial condition.

*Recommendation:* Due to the size of the city, it is not feasible to obtain proper separation of duties and no recommendation will be made.

*Client Response:* No response is considered necessary.

## 2. Financial Statement Preparation

*Condition:* The city's financial statements as of December 31, 2015 and 2014 are prepared by the city's external auditors.

*Criteria:* A good system of internal controls requires the city to determine that the financial statements are prepared based on the modified cash basis of accounting. This means that the city must maintain knowledge of current accounting principles and required financial statement disclosures.

*Effect:* A control system is not in place to determine that the financial statements are properly stated and in compliance with the modified cash basis of accounting.

*Recommendation:* We recommend the city obtain the necessary knowledge of current accounting principles to prepare financial statements or outsource the preparation of its financial statements.

*Client Response:* It is not cost effective for the city to prepare its own financial statements.

# Rath & Mehrer

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Governing Board  
City of Gladstone  
Gladstone, North Dakota

Our audits of the financial records of the City of Gladstone, Gladstone, North Dakota, for the years ended December 31, 2015 and 2014 have disclosed opportunities for improvements in the operations of the city. Items which we believe should be brought to your attention are set forth below:

\* \* \* \* \*

## REVIEW OF PLEDGE OF SECURITIES

Per our review of the governing board's minutes, we did not note a semi-annual review of the pledge of securities. NDCC section 21-04-11 requires the governing board to review the pledge of securities at least every six months to determine if security pledges are adequate or are needed to protect city deposits. We recommend the board review the pledge of securities semi-annually and such action should be noted in the minutes.

## BOARD MINUTES

Minutes of the governing board's proceedings are not being signed by the mayor and city auditor. The minutes should be signed by the auditor when prepared and by the mayor upon board approval at a subsequent meeting in accordance with NDCC section 40-16-03.

The city auditor does not include the check numbers for disbursements listed in the official minutes of the governing board. Per NDCC section 40-16-03 (15), approval of all claims shall be recorded in the official proceedings of the governing board showing the check number, payee and amount. We recommend that the city comply with this section of the century code by including the check number of disbursements approved for payment by the governing board.

## PAYROLL TAX DEPOSITS

During the course of our audit, it came to our attention that the city auditor was not making the required payroll tax deposits on a timely basis. Internal Revenue Service Publication 15 (Circular E) Employer's Tax Guide (section 11) requires the city to make a monthly deposit of income taxes withheld from employee wages and both the employer and employee share of Social Security and Medicare taxes. We recommend that the city auditor deposit the monthly payroll taxes by the 15th day of the following month to avoid any future interest and penalties that the internal revenue service may assess.

\* \* \* \* \*

This letter is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this letter which, upon acceptance by the city, is a matter of public record.

We would like to acknowledge all the assistance and many courtesies extended to us by the personnel of the city during our audits.

*Rath and Mehrer*

Rath and Mehrer, P.C.

June 10, 2016