

CITY OF GLEN ULLIN

AUDIT REPORT

December 31, 2015

CITY OF GLEN ULLIN
GLEN ULLIN, NORTH DAKOTA

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For The Year Ended December 31, 2015

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CITY OF GLEN ULLIN

LIST OF OFFICIALS

December 31, 2015

Mayor	Ray Haverluk
Council President	Randy Martwick
Council Vice President	Tina Haverluk
Council Member	Audrey Duppong
Council Member	Gary Glasser
Council Member	Doug Martwick
Council Member	Kevin Kloosterman
City Attorney	John Mahoney
City Auditor	Vicki Horst

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Glen Ullin
Glen Ullin, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Glen Ullin, North Dakota, 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 accrual basis of accounting described in Note 1; this includes determining that the modified accrual 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

Basis for Adverse Opinion on Governmental and Business-Type Activities and Proprietary Funds

Management has not recorded capital assets in the governmental and business-type activities and proprietary funds and, accordingly, has not recorded depreciation expense on those assets. The modified accrual basis of accounting requires that those assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental and business-type activities and proprietary funds. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities and proprietary funds has not been determined.

Basis for Adverse Opinion on Transportation Fund and Governmental Activities

Management has not included the Transportation Fund in the City of Glen Ullin, North Dakota's financial statements. The modified accrual basis of accounting requires the Transportation Fund to be presented as a major governmental fund and financial information about the Transportation Fund to be part of the governmental activities, thus increasing that activity's assets, liabilities, revenues, and expenditures, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenditures of the governmental activities and the omitted major fund has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matters described in the "Basis for Adverse Opinion on Governmental and Business-Type Activities and Proprietary Funds" and "Basis for Adverse Opinion on Transportation Fund and Governmental Activities" paragraphs, the financial statements referred to previously do not present fairly the financial position of the governmental and business-type activities and proprietary funds and the Transportation Fund of the City of Glen Ullin, as of December 31, 2015, or the changes in financial position thereof for the year then ended in accordance with the modified accrual basis of accounting.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified accrual basis of each major governmental fund other than the Transportation Fund, and the aggregate remaining fund information of the City of Glen Ullin, as of December 31, 2015, and the respective changes in financial position – modified accrual basis for the year then ended in accordance with the modified accrual basis of accounting.

Basis of Accounting

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

INDEPENDENT AUDITOR'S REPORT

Other Matters

Required Supplementary Information

A comprehensive basis of accounting other than accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 21 through 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the City of Glen Ullin'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 of Glen Ullin's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
October 31, 2016

City of Glen Ullin
Statement of Net Position - Modified Accrual Basis
December 31, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 194,611	\$ 91,403	\$ 286,014
Investments	662,410	142,991	805,401
Due from County Treasurer	26,532	-	26,532
Taxes Receivable, Net	<u>2,624</u>	<u>-</u>	<u>2,624</u>
 TOTAL ASSETS	 886,177	 234,394	 1,120,571
NET POSITION			
Restricted for:			
Special Purposes	578,717	-	578,717
Unrestricted	<u>307,460</u>	<u>234,394</u>	<u>541,854</u>
 TOTAL NET POSITION	 <u>\$ 886,177</u>	 <u>\$ 234,394</u>	 <u>\$ 1,120,571</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Statement of Activities - Modified Accrual Basis
For the year ended December 31, 2015

	Net (Expense) Revenue & Changes in Net Position						
	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Functions/Programs</u>							
<u>Primary Governments</u>							
<u>Governmental Activities</u>							
General Government	\$ 272,511	\$ 4,979	\$ 448,264	\$ -	\$ 180,732		\$ 180,732
Public Safety	42,039	-	-	-	(42,039)		(42,039)
Public Works	63,766	30,155	79,829	-	46,218		46,218
Culture and Recreation	18,797	-	-	-	(18,797)		(18,797)
Airport	256,826	-	185,399	-	(71,427)		(71,427)
Total Governmental Activities	653,939	35,134	713,492	-	94,687		94,687
<u>Business-type Activities</u>							
Water Operating	167,282	208,520	-	-	-	\$ 41,238	41,238
Sewer Operating	43,582	30,071	-	-	-	(13,511)	(13,511)
Garbage Operating	4,302	3,372	-	-	-	(930)	(930)
Garbage Services	85,996	102,646	-	-	-	16,650	16,650
Street Lights Operating	10,079	-	-	-	-	(10,079)	(10,079)
Meter Operating	(220)	(436)	-	-	-	(216)	(216)
Total Business-type Activities	311,021	344,173	-	-	-	33,152	33,152
Total Primary Government	\$ 964,960	\$ 379,307	\$ 713,492	\$ -	94,687	33,152	127,839
 General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					62,110	-	62,110
Property Taxes, Levied for Special Reserve					35,249	-	35,249
City Sales Tax					56,777	-	56,777
Cigarette Taxes					2,619	-	2,619
Earnings on Investments					3,839	981	4,820
Other Revenues					24,566	-	24,566
Sale of Fixed Assets					2,200	-	2,200
Total General Revenues					187,360	981	188,341
 Change in Net Position							
Net Position - Beginning of Year					604,130	200,261	804,391
Net Position - End of Year					\$ 886,177	\$ 234,394	\$ 1,120,571

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Balance Sheet - Modified Accrual Basis - Governmental Funds
December 31, 2015

	Major Funds					Other	Total
	General Fund	City Share Fund	City Sales Tax Fund	Highway Fund	Airport Fund	Governmental Funds	Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 31,089	\$ 1,248	\$ 102,643	\$ -	\$ 32,295	\$ 27,336	\$ 194,611
Investments	253,321	106,754	265,900	8,855	-	27,580	662,410
Due from County Treasurer	21,698	1,639	-	-	1,311	1,884	26,532
Taxes Receivable, Net	<u>1,352</u>	<u>179</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>897</u>	<u>2,624</u>
TOTAL ASSETS	<u>\$ 307,460</u>	<u>\$ 109,820</u>	<u>\$ 368,543</u>	<u>\$ 8,855</u>	<u>\$ 33,802</u>	<u>\$ 57,697</u>	<u>\$ 886,177</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
Deferred Inflows of Resources							
Uncollected Taxes	\$ 1,352	\$ 179	\$ -	\$ -	\$ 196	\$ 897	\$ 2,624
Total Liabilities and Deferred Inflows of Resources	<u>1,352</u>	<u>179</u>	<u>-</u>	<u>-</u>	<u>196</u>	<u>897</u>	<u>2,624</u>
Fund Balances:							
Restricted	-	-	-	8,855	-	-	8,855
Assigned	-	109,641	368,543	-	33,606	56,800	568,590
Unassigned	<u>306,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306,108</u>
Total Fund Balances	<u>306,108</u>	<u>109,641</u>	<u>368,543</u>	<u>8,855</u>	<u>33,606</u>	<u>56,800</u>	<u>883,553</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 307,460</u>	<u>\$ 109,820</u>	<u>\$ 368,543</u>	<u>\$ 8,855</u>	<u>\$ 33,802</u>	<u>\$ 57,697</u>	<u>\$ 886,177</u>
 Total fund balances - governmental funds							\$ 883,553
 Amounts reported for <i>governmental activities</i> in the statement of net position are different because:							
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore, are deferred in the funds.							<u>2,624</u>
 Net position of governmental activities							<u>\$ 886,177</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Accrual Basis - Governmental Funds
For the year ended December 31, 2015

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	City Share Fund	City Sales Tax Fund	Highway Fund	Airport Fund		
REVENUES							
Taxes	\$ 61,914	\$ 5,736	\$ 56,777	\$ 66,881	\$ 6,965	\$ 22,406	\$ 220,679
Licenses, Permits, and Fees	4,895	-	-	-	-	-	4,895
Intergovernmental	450,883	1,097	-	-	185,399	11,851	649,230
Charges for Services	6,886	-	-	-	13,000	10,269	30,155
Fines	84	-	-	-	-	-	84
Earnings on Investments	1,926	442	1,227	200	-	44	3,839
Miscellaneous	3,954	-	-	8,769	9,054	2,789	24,566
TOTAL REVENUES	530,542	7,275	58,004	75,850	214,418	47,359	933,448
EXPENDITURES							
Current:							
General Government	189,295	-	-	54,963	-	28,253	272,511
Public Safety	42,039	-	-	-	-	-	42,039
Public Works	-	-	-	62,944	-	822	63,766
Culture and Recreation	-	-	-	-	-	18,797	18,797
Airport	-	-	-	-	256,826	-	256,826
TOTAL EXPENDITURES	231,334	-	-	117,907	256,826	47,872	653,939
Excess (Deficiency) of Revenues Over (Under) Expenditures	299,208	7,275	58,004	(42,057)	(42,408)	(513)	279,509
OTHER FINANCING SOURCES (USES)							
Sale of Fixed Assets	2,200	-	-	-	-	-	2,200
Transfers In (Out)	(44,105)	-	-	40,900	-	3,205	-
TOTAL OTHER FINANCING SOURCES (USES)	(41,905)	-	-	40,900	-	3,205	2,200
NET CHANGE IN FUND BALANCES	257,303	7,275	58,004	(1,157)	(42,408)	2,692	281,709
Fund Balances - January 1, 2015	48,805	102,366	310,539	10,012	76,014	54,108	601,844
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 306,108</u>	<u>\$ 109,641</u>	<u>\$ 368,543</u>	<u>\$ 8,855</u>	<u>\$ 33,606</u>	<u>\$ 56,800</u>	<u>\$ 883,553</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities - Modified Accrual Basis
For the year ended December 31, 2015

Net change in fund balances - total governmental funds	\$ 281,709
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The change in net position reported for governmental activities in the statement of activities is different because:

Some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues decreased by this amount this year.

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Change in net position of governmental activities	<u>\$ 282,047</u>
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The accompanying notes are an integral part of this statement.

City of Glen Ullin
Statement of Net Position - Modified Accrual Basis - Proprietary Funds
December 31, 2015

	<u>Major Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Garbage Services</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>
ASSETS				
Cash and Cash Equivalents	\$ 57,247	\$ 16,650	\$ 17,506	\$ 91,403
Investments	<u>68,995</u>	<u>-</u>	<u>73,996</u>	<u>142,991</u>
TOTAL ASSETS	126,242	16,650	91,502	234,394
NET POSITION				
Unrestricted	<u>126,242</u>	<u>16,650</u>	<u>91,502</u>	<u>234,394</u>
TOTAL NET POSITION	<u>\$ 126,242</u>	<u>\$ 16,650</u>	<u>\$ 91,502</u>	<u>\$ 234,394</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Accrual Basis - Proprietary Funds
For the year ended December 31, 2015

	Major Enterprise Funds		Other	
	Water Fund	Garbage Services	Enterprise Funds	Total
OPERATING REVENUES:				
Sewer Charges	\$ -	\$ -	\$ 30,071	\$ 30,071
Garbage Collection Charges	-	102,646	3,372	106,018
Water Enterprise	-	-	(436)	(436)
Water Charges	95,710	-	-	95,710
Miscellaneous Charges	88,905	-	23,905	112,810
TOTAL OPERATING REVENUES	184,615	102,646	56,912	344,173
OPERATING EXPENSES:				
Operation & Maintenance	33,695	-	31,467	65,162
Salaries & Benefits	24,528	-	21,974	46,502
Garbage Operations	-	85,996	4,302	90,298
Water System	109,059	-	-	109,059
TOTAL OPERATING EXPENSES	167,282	85,996	57,743	311,021
INCOME (LOSS) FROM OPERATIONS	17,333	16,650	(831)	33,152
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	694	-	287	981
CHANGE IN NET POSITION	18,027	16,650	(544)	34,133
Net Position - January 1, 2015	108,215	-	92,046	200,261
NET POSITION - DECEMBER 31, 2015	<u>\$ 126,242</u>	<u>\$ 16,650</u>	<u>\$ 91,502</u>	<u>\$ 234,394</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Statement of Cash Flows
Modified Accrual Basis - Proprietary Funds
For the year ended December 31, 2015

	<u>Major Enterprise Funds</u>		Other	
	<u>Water Fund</u>	<u>Garbage Services</u>	<u>Enterprise Funds</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers	\$ 184,615	\$ 102,646	\$ 56,912	\$344,173
Payments to employees	(24,528)	-	(21,974)	(46,502)
Payments to suppliers	<u>(142,754)</u>	<u>(85,996)</u>	<u>(35,769)</u>	<u>(264,519)</u>
Net cash provided (used) by operating activities	17,333	16,650	(831)	33,152
Cash flows from investing activities				
Changes in certificates of deposit	(405)	-	40	(365)
Interest income	<u>694</u>	<u>-</u>	<u>287</u>	<u>981</u>
Net cash flows provided (used) by investing activities	<u>289</u>	<u>-</u>	<u>327</u>	<u>616</u>
Net increase (decrease) in cash and cash equivalents	17,622	16,650	(504)	33,768
Cash and cash equivalents - January 1	<u>39,625</u>	<u>-</u>	<u>18,010</u>	<u>57,635</u>
Cash and cash equivalents - December 31	<u>\$ 57,247</u>	<u>\$ 16,650</u>	<u>\$ 17,506</u>	<u>\$ 91,403</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities				
Income (loss) from operations	<u>\$ 17,333</u>	<u>\$ 16,650</u>	<u>\$ (831)</u>	<u>\$ 33,152</u>
Net cash provided (used) by operating activities	<u>\$ 17,333</u>	<u>\$ 16,650</u>	<u>\$ (831)</u>	<u>\$ 33,152</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Glen Ullin adopted a Home Rule Charter in 2006. The financial statements of the City have been prepared on a modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America 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. Reporting Entity

In accordance with Governmental Accounting Standards Board Statement No. 14 *The Financial Reporting Entity*, for financial reporting purposes the City's financial statements include all accounts of the City's operations. The criteria for including organizations as component units within the City's reporting entity include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization on the City

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. But, based upon the criteria of Statement No. 14, there are no component units to be included within the City as a reporting entity and the City is not includable as a component unit within another reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position 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 supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Separate statements are presented for governmental, proprietary and fiduciary activities. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The City has presented the following major governmental funds:

General Fund: The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

City Share Fund: This fund accounts for the taxes levied for City taxes and the uses of such funds.

City Sales Tax Fund: This fund accounts for City sales tax collections which are used for various purposes.

Highway Fund: This fund accounts for the Highway Tax Distribution payments received from the state and the uses of such funds.

Airport Fund: This fund accounts for airport tax distribution and grants to be used in maintenance, repairs, and construction related to the airport.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investments earnings, result from nonexchange transactions or ancillary activities. The City has the following major proprietary funds:

Water Fund: This fund is used to account for the provision of water services to the residents of the City. Activities of the fund include employees' salaries and benefits, and operations and maintenance. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Garbage Services: This fund is used to account for the provision of garbage services to the residents of the City. Activities of the fund include and operations and maintenance. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when transactions are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The City follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States for government entities.

The government-wide statements are reported using the economic resources measurement focus and the modified accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the modified accrual basis of accounting, revenues are recognized when earned, except for enterprise fund charges for services which are recognized when received, and expenses are recognized at the time the liability is incurred. Also, because the City has not capitalized fixed assets, purchases of capital/fixed assets are expensed and no depreciation is recorded.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

The proprietary funds financial statements are reported using the 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. Under the modified accrual basis of accounting used by the City, charges for services are recorded as revenue when the amounts are received rather than when the revenue is earned. Purchases of capital assets are expensed.

D. Deposits

In accordance with North Dakota statutes, the City maintains deposits at 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 and 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.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the state of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district, or other political subdivision of the state of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by any other 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 \$1,091,415 and the bank balance was \$1,097,690. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$395,483 was covered by Federal Depository Insurance and \$702,207 was covered by pledged securities held by the pledging financial institutions' agency not in the City's name, in CDARS accounts and in an ICS money market account. During the year, the board reviewed the pledge of securities semi-annually as required by state law.

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

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

Concentration of credit risk: The City does not have a limit on the amount the City may invest in any one issuer.

E. Capital Assets

The City has not recorded capital assets and depreciated such assets based on the estimated useful lives. This is a departure from the modified accrual basis of accounting. An accurate accounting of historical costs was not available to record the capital assets and accumulated depreciation.

F. Compensated Absences

Full-time, permanent employees receive vacation and sick leave benefits each year in amounts that vary depending on tenure with the City. Employees are entitled to their vacation leave upon termination. The maximum number of vacation hours an employee may carryover at December 31 each year is 240. Sick leave is not paid upon termination. As of December 31, 2015, the City did not have any compensated absences payable.

G. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. The City does not record encumbrances.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. 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 expensed in the period incurred.

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. For the year ended December 31, 2015, the City did not have any outstanding debt.

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.

J. Fund Balance Classifications

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 city council removed 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 special purposes, but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

K. 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 for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the city council or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

L. Deferred Inflows of Resources

Deferred inflows of resources in the fund financial statements consists of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposit and savings accounts.

Investments consist of certificates of deposit and CDARS carried at cost with terms of nine to twenty-four months and interest rates of 0.50 to 0.75 percent in 2015.

NOTE 3 TAXES RECEIVABLE

Taxes receivable consist of delinquent uncollected taxes at December 31.

Property tax revenue is recognized in compliance with National Council on Government Accounting (NCGA) Interpretation 3 "Revenue Recognition-Property Taxes." This interpretation states that property tax revenue is recorded when it becomes available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Since no material taxes are collected within this time period, taxes receivable are recorded as deferred revenue.

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and usually remitted monthly to the City. Property taxes are limited by state laws. All City tax levies are in compliance with state laws.

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 property taxes.

NOTE 4 DUE FROM COUNTY TREASURER

The amount of \$26,532 due from county treasurer consists of the cash on hand at the county for taxes collected but not remitted to the City at December 31.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 5 PENSION PLAN

The City has a simplified employee pension plan (SEP - IRA) with the Equitable Financial Company for qualified employees. Both the City and the employees contribute to the plan. The City contributes 4% of gross wages and the employees may contribute up to the annual limit set by the IRS. In 2015, the employer contributions were \$3,092. The City is only responsible for current contributions.

NOTE 6 RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the mid-1980's, the City was not able to obtain general liability insurance at a cost it considered to be economically justifiable. In 1986, the state and other political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating a common risk management and insurance program for the state and over 2,000 political subdivisions. All members paid an additional charge the first year they joined to help capitalize the NDIRF. In 1991 and 1992 the NDIRF returned 20% of the capitalized amount with a premium reduction or cash payment to the City. The City pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence. There have been no losses that exceeded the coverage in the last three years.

The City continues to carry commercial insurance for all other risks of loss, including North Dakota Fire and Tornado fund, state bonding, workers' compensation and employee health and accident insurance.

NOTE 7 INTERFUND TRANSFERS

At December 31, 2015, transfers in and transfers out totaled \$44,105. Below is a summary of the transfers in and transfers out.

	Transfer In	Transfer Out	Purpose of Transfer
Governmental Funds			
General Fund		\$ 44,105	To replenish negative fund balance and cover operations.
Highway Fund	\$ 40,900		To replenish negative fund balance and cover operations.
City Auditorium Building Fund	3,205		To replenish negative fund balance and cover operations.
Total	<u>\$ 44,105</u>	<u>\$ 44,105</u>	

NOTE 8 EXPENDITURES IN EXCESS OF BUDGET

For the year ended December 31, 2015, the Airport, Highway and General funds were all expended in excess of budget. No remedial action is anticipated or required by the City regarding these excess expenditures. The Airport fund had more revenues and expenditures than budgeted due to a grant received so they were able to expend more funds to make repairs to the airport that were not included in the budget. Excess General funds were transferred to the Highway Fund to help cover the expenditures that resulted from the hiring of additional maintenance personnel as well as several equipment repairs that were not anticipated. Surge funding was received which allowed for various projects to be completed and paid out of the General fund that were not originally budgeted for in the current year.

City of Glen Ullin
Glen Ullin, North Dakota
Notes to the Financial Statements
December 31, 2015

NOTE 9 TRANSPORTATION FUND

For the year ended December 31, 2015, the Transportation Fund was excluded from the financial statements because of the lack of financial information available at the time of the audit. The records provided for the Transportation Fund at December 31, 2014 indicated cash and certificate of deposit bank balances of \$99,560. The records provided for the Transportation Fund at December 31, 2015 indicated cash and certificate of deposit bank balances of \$98,859.

NOTE 10 FUND BALANCES

At December 31, 2015, a summary of the governmental fund balance classifications are as follows:

	General Fund	City Share Fund	City Sales Tax Fund	Highway Fund	Airport Fund	Other Governmental Funds	Total
Restricted							
Highway	\$ -	\$ -	\$ -	\$ 8,855	\$ -	\$ -	\$ 8,855
Assigned							
City Share	-	109,641	-	-	-	-	109,641
City Sales Tax	-	-	368,543	-	-	-	368,543
Airport	-	-	-	-	33,606	-	33,606
Social Security	-	-	-	-	-	11,298	11,298
City Lodging & Restaurant Tax	-	-	-	-	-	13,700	13,700
Advertising	-	-	-	-	-	3,713	3,713
Snow Removal	-	-	-	-	-	7,091	7,091
Retirement	-	-	-	-	-	4,374	4,374
Job Development	-	-	-	-	-	6,068	6,068
Library	-	-	-	-	-	2,996	2,996
City Auditorium Building	-	-	-	-	-	2,920	2,920
Forestry	-	-	-	-	-	2,753	2,753
Insurance Reserve	-	-	-	-	-	1,887	1,887
Unassigned	306,108	-	-	-	-	-	306,108
	<u>\$ 306,108</u>	<u>\$ 109,641</u>	<u>\$ 368,543</u>	<u>\$ 8,855</u>	<u>\$ 33,606</u>	<u>\$ 56,800</u>	<u>\$ 883,553</u>

NOTE 11 RELATED PARTY TRANSACTIONS

Ray Haverluk is the mayor for the City of Glen Ullin and his wife, Tina Haverluk, serves on the City council. Ray Haverluk owns Haverluk Construction and has done a couple of small jobs for the City.

Doug and Randy Martwick are brothers and both serve on the City council. Doug Martwick is also employed with Northern Improvement, which has done street repairs for the City.

Tim Jeffries is the maintenance man for the City of Glen Ullin and is the nephew of Vicki Horst, City Auditor.

Gary Glasser serves on the City council and is the owner's son of Glasser Excavating, which does water repairs and other miscellaneous repairs for the City.

***REQUIRED
SUPPLEMENTARY INFORMATION***

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 General Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	
REVENUES				
Taxes	\$ 49,940	\$ 49,940	\$ 61,914	\$ 11,974
Licenses, Permits, and Fees	3,650	3,650	4,895	1,245
Intergovernmental	76,310	76,310	450,883	374,573
Charges for Services	5,590	5,590	6,886	1,296
Fines	400	400	84	(316)
Earnings on Investments	800	800	1,926	1,126
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>3,954</u>	<u>1,954</u>
TOTAL REVENUES	<u>138,690</u>	<u>138,690</u>	<u>530,542</u>	<u>391,852</u>
EXPENDITURES				
Current:				
General Government	144,935	142,535	189,295	(46,760)
Public Safety	<u>41,600</u>	<u>41,600</u>	<u>42,039</u>	<u>(439)</u>
TOTAL EXPENDITURES	<u>186,535</u>	<u>184,135</u>	<u>231,334</u>	<u>(47,199)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(47,845)	(45,445)	299,208	344,653
OTHER FINANCING SOURCES (USES)				
Sale of Fixed Assets	-	-	2,200	2,200
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(44,105)</u>	<u>(44,105)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(41,905)</u>	<u>(41,905)</u>
NET CHANGE IN FUND BALANCES	(47,845)	(45,445)	257,303	302,748
Fund Balances - January 1, 2015	<u>48,805</u>	<u>48,805</u>	<u>48,805</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 960</u>	<u>\$ 3,360</u>	<u>\$ 306,108</u>	<u>\$ 302,748</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 City Share Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 5,967	\$ 5,967	\$ 5,736	\$ (231)
Intergovernmental	-	-	1,097	1,097
Earnings on Investments	-	-	442	442
TOTAL REVENUES	<u>5,967</u>	<u>5,967</u>	<u>7,275</u>	<u>1,308</u>
EXPENDITURES				
Current:				
Public Works	<u>107,000</u>	<u>107,000</u>	<u>-</u>	<u>107,000</u>
TOTAL EXPENDITURES	<u>107,000</u>	<u>107,000</u>	<u>-</u>	<u>107,000</u>
NET CHANGE IN FUND BALANCES	(101,033)	(101,033)	7,275	108,308
Fund Balances - January 1, 2015	<u>102,366</u>	<u>102,366</u>	<u>102,366</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 1,333</u>	<u>\$ 1,333</u>	<u>\$ 109,641</u>	<u>\$ 108,308</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 City Sales Tax Fund
 For the year ended December 31, 2015

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 63,000	\$ 63,000	\$ 56,777	\$ (6,223)
Earnings on Investments	<u>300</u>	<u>300</u>	<u>1,227</u>	<u>927</u>
TOTAL REVENUES	63,300	63,300	58,004	(5,296)
EXPENDITURES				
Current:				
General Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	63,300	63,300	58,004	(5,296)
Fund Balances - January 1, 2015	<u>310,539</u>	<u>310,539</u>	<u>310,539</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 373,839</u>	<u>\$ 373,839</u>	<u>\$ 368,543</u>	<u>\$ (5,296)</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 Highway Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 67,500	\$ 67,500	\$ 66,881	\$ (619)
Earnings on Investments	-	-	200	200
Miscellaneous	-	-	8,769	8,769
TOTAL REVENUES	<u>67,500</u>	<u>67,500</u>	<u>75,850</u>	<u>8,350</u>
EXPENDITURES				
Current:				
General Government	35,000	35,000	54,963	(19,963)
Public Works	<u>30,000</u>	<u>30,000</u>	<u>62,944</u>	<u>(32,944)</u>
TOTAL EXPENDITURES	<u>65,000</u>	<u>65,000</u>	<u>117,907</u>	<u>(52,907)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,500	2,500	(42,057)	(44,557)
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>40,900</u>	<u>40,900</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>40,900</u>	<u>40,900</u>
NET CHANGE IN FUND BALANCES	2,500	2,500	(1,157)	(3,657)
Fund Balances - January 1, 2015	<u>10,012</u>	<u>10,012</u>	<u>10,012</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 12,512</u>	<u>\$ 12,512</u>	<u>\$ 8,855</u>	<u>\$ (3,657)</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
 Budgetary Comparison Schedule - Modified Accrual Basis
 Social Security Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 10,202	\$ 10,202	\$ 4,668	\$ (5,534)
Intergovernmental	<u>350</u>	<u>350</u>	<u>1,225</u>	<u>875</u>
TOTAL REVENUES	10,552	10,552	5,893	(4,659)
EXPENDITURES				
Current:				
General Government	<u>19,250</u>	<u>19,250</u>	<u>10,449</u>	<u>8,801</u>
TOTAL EXPENDITURES	<u>19,250</u>	<u>19,250</u>	<u>10,449</u>	<u>8,801</u>
NET CHANGE IN FUND BALANCES	(8,698)	(8,698)	(4,556)	4,142
Fund Balances - January 1, 2015	<u>15,371</u>	<u>15,371</u>	<u>15,371</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 6,673</u>	<u>\$ 6,673</u>	<u>\$ 10,815</u>	<u>\$ 4,142</u>

The accompanying notes are an integral part of this statement.

City of Glen Ullin
Notes to Required Supplementary Information
December 31, 2015

NOTE 1 BUDGETS

The City adopts a budget on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The budget is presented for the general fund and major special revenue funds. The city council is required to present the adopted and final amended budgeted receipts and disbursements for the fund.

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

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The City holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the City 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 governing board and the approval must be noted in the official proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

INDEPENDENT AUDITOR'S 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

Governing Board
City of Glen Ullin
Glen Ullin, 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, each major fund, and the aggregate remaining fund information of the City of Glen Ullin, North Dakota 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 and have issued our report thereon dated October 31, 2016. We have issued an adverse opinion on the governmental, business-type, and major and non-major proprietary funds due to the omission of capital assets and related accumulated depreciation. We have issued an adverse opinion on the Transportation Fund, a major governmental fund, and governmental activities because the transportation records were not available.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2015-1 through 2015-3 described in the accompanying schedule of findings to be material weaknesses.

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. We consider deficiency 2015-4 described in the accompanying schedule of findings to be a significant deficiency.

INDEPENDENT AUDITOR'S 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

Compliance and Other Matters

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

City of Glen Ullin, North Dakota's Response to Findings

The City of Glen Ullin's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City of Glen Ullin's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Mahlum Goodhart, PC
Mandan, North Dakota
October 31, 2016

City of Glen Ullin
Schedule of Findings
For the Year Ended December 31, 2015

Current Year Findings:

Finding 2015-1: Segregation of Duties

Condition – The city auditor is responsible for the majority of accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no individual has control of a transaction from inception to completion.

Cause – There is a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the entity's ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in entities of this size, but the Council should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Council's knowledge of matters relating to the entity's operations.

Management Response – The City is aware of the condition.

Finding 2015-2: Capital Asset Records

Condition – The City of Glen Ullin does not maintain complete capital asset records.

Criteria – Under the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, require the financial statements include the capital assets and the related depreciation.

Cause – The City of Glen Ullin has no system in place to maintain capital assets records and related depreciation.

Effect – The omission of the capital assets from the financial statements results in an incomplete presentation of the City of Glen Ullin's financial statements and an adverse opinion on the governmental activities, business-type activities, and proprietary funds.

Recommendation – We recommend the City of Glen Ullin establish complete capital asset records and determine the accumulated depreciation.

Management Response – We will work on a schedule of all assets and related depreciation to be entered into our accountant's depreciation software.

City of Glen Ullin
Schedule of Findings
For the Year Ended December 31, 2015

Finding 2015-3: Preparation of Financial Statements

Condition – The financial statements and related notes are prepared by the City’s auditors.

Criteria – Complete and accurate presentation of the financial statements in conformity with a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting department.

Effect – The City has elected to have the auditors complete the full disclosure financial statements.

Recommendation – The preparation of financial statements by the City’s auditors is not unusual in an entity of this size. The Council should continue to review the financial statements and related disclosures.

Management Response – The City Council will be made aware that someone needs to review the audit report each year to make sure the financial statements appear to be correct.

Finding 2015-4: Journal Entries

Condition – Journal entries were required to record taxes receivable, deferred revenue, and due from county on the modified accrual basis of accounting. Entries were also required to adjust posting errors.

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Cause – The City did not post the accrual adjustments.

Effect – The financial statements were not properly adjusted for the modified accrual basis of accounting.

Recommendation – All taxes receivable and due from county activity should be recorded in the financial statements to ensure the general ledger includes all activity that occurred during the fiscal year to allow for accurate presentation of the financial statements. All accounts should be reviewed monthly to ensure entries are properly classified.

Management Response – We will work on preparing these entries and provide the information to the auditors to record in our accounting records.

Prior Year Findings:

Findings 2015-1 through 2015-4 are repeat findings.