

CITY OF GLENBURN
Glenburn, North Dakota

AUDIT REPORT
For the Year Ended December 31, 2016

LERVIK
&
JOHNSON

Certified Public Accountants

CITY OF GLENBURN
Glenburn, North Dakota

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CITY OF GLENBURN
Glenburn, North Dakota

CITY OFFICIALS

December 31, 2016

<u>Official</u>	<u>Position</u>
Eric Folstad	Mayor
Dave Ashley	Council President
Dianne Hensen	Council Member
Rick Larson	Council Member
Chris Schilken	Council Member
Donna Zeltinger	City Auditor

LERVIK & JOHNSON

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

City Council
City of Glenburn
Glenburn, 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 Glenburn, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 error or fraud.

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 circumstance, 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.

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, business-type activities, each major fund and the aggregate remaining fund information of the City of Glenburn, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position and, where applicable, modified cash basis cash flows thereof for the year then ended in conformity 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 accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

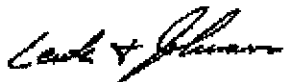
Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America required 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 31-33, the schedule of city's share of net pension liability for the last ten fiscal years on page 34, the schedule of the city's contributions for the last ten fiscal years on page 35, and the related notes on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financials 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017, on our consideration of City of Glenburn'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Glenburn's internal control over financial reporting and compliance.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

November 17, 2017

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
December 31, 2016

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS:			
Current Assets:			
Cash and Investments	\$ 804,480.38	\$ 199,477.70	\$ 1,003,958.08
Noncurrent Assets:			
Cash Restricted by Debt Covenants	-	27,725.00	27,725.00
Capital Assets (Net of Accumulated Depreciation)	918,685.36	739,569.65	1,658,255.01
Investment in Cooperatives	10,424.89	-	10,424.89
Total Noncurrent Assets	929,110.25	767,294.65	1,696,404.90
Total Assets	1,733,590.63	966,772.35	2,700,362.98
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Outflows Relating to Pensions	17,690.05	-	17,690.05
LIABILITIES:			
Current Liabilities:			
Payroll Taxes Payable	1,894.78	-	1,894.78
Current Portion of Long-Term Debt	47,000.00	20,000.00	67,000.00
Total Current Liabilities	48,894.78	20,000.00	68,894.78
Noncurrent Liabilities:			
Long-Term Debt, Net of Current Portion Discount on Bonds Payable (Net of Accumulated Amortization)	369,000.00	270,000.00	639,000.00
	(4,025.00)	-	(4,025.00)
	364,975.00	270,000.00	634,975.00
Compensated Absences	7,672.46	-	7,672.46
Net Pension Liability	54,909.00	-	54,909.00
Total Noncurrent Liabilities	427,556.46	270,000.00	697,556.46
Total Liabilities	476,451.24	290,000.00	766,451.24
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows Relating to Pensions	7,495.00	-	7,495.00
NET POSITION:			
Net Investment in Capital Assets	506,710.36	449,569.65	956,280.01
Restricted for:			
Debt Service	129,750.53	27,725.00	157,475.53
Cemetery	2,485.31	-	2,485.31
Unrestricted	628,388.24	199,477.70	827,865.94
Total Net Position	\$ 1,267,334.44	\$ 676,772.35	\$ 1,944,106.79

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
For the Year Ended December 31, 2016

	Net (Expense) Revenues and Changes in Net Position				
	Program Revenues		Primary Government		
	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
General Government	\$ 129,751.15	\$ 10,619.34	\$ (119,131.81)	\$ -	\$ (119,131.81)
Public Safety	16,020.00	420.00	(15,600.00)	-	(15,600.00)
Public Works	95,946.14	-	(95,946.14)	-	(95,946.14)
Health and Welfare	11,941.00	-	(11,941.00)	-	(11,941.00)
Culture and Recreation	4,253.53	-	(4,253.53)	-	(4,253.53)
Interest	13,703.75	-	(13,703.75)	-	(13,703.75)
Bank Fees	1,230.00	-	(1,230.00)	-	(1,230.00)
Total Governmental Activities	272,845.57	11,039.34	(261,806.23)	-	(261,806.23)
BUSINESS-TYPE ACTIVITIES:					
Water	72,816.03	-	-	8,311.69	8,311.69
Sewer	43,285.27	-	-	7,599.39	7,599.39
Garbage	32,178.00	-	-	(1,159.53)	(1,159.53)
Total Business-Type Activities	148,279.30	163,030.85	-	14,751.55	14,751.55
Total Primary Government	\$ 421,124.87	\$ 174,070.19	\$ (261,806.23)	14,751.55	(247,054.68)
General Revenues and Transfers:					
General Property Taxes			73,676.28	-	73,676.28
Special Assessment Property Taxes			17,497.32	-	17,497.32
City Sales Tax			39,443.19	-	39,443.19
Unrestricted State Aid			113,627.72	-	113,627.72
Interest and Dividend Income			4,181.88	-	4,181.88
Miscellaneous Revenues			4,368.62	-	4,368.62
Total General Revenues and Transfers			252,795.01	-	252,795.01
Change in Net Position			(9,011.22)	14,751.55	5,740.33
Net Position - January 1			1,276,345.66	662,020.80	1,938,366.46
Net Position - December 31			\$ 1,267,334.44	\$ 676,772.35	\$ 1,944,106.79

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2016

	Major Funds				Total
	General Fund	Debt Service	Highway Fund	Cemetery Fund	
<u>ASSETS</u>					
<u>Current Assets:</u>					
Cash and Investments	\$ 735,394.42	\$ 129,750.53	\$ -	\$ 2,485.31	\$ 867,630.26
Total Current Assets	735,394.42	129,750.53	-	2,485.31	867,630.26
<u>Noncurrent Assets:</u>					
Investment in Cooperatives	10,424.89	-	-	-	10,424.89
Total Assets	\$ 745,819.31	\$ 129,750.53	\$ -	\$ 2,485.31	\$ 878,055.15
<u>LIABILITIES AND FUND BALANCES</u>					
Cash Overdraft	\$ -	\$ -	\$ 63,149.88	\$ -	\$ 63,149.88
Payroll Taxes Payable	1,894.78	-	-	-	1,894.78
Total Liabilities	1,894.78	-	63,149.88	-	65,044.66
<u>FUND BALANCES</u>					
Restricted	-	129,750.53	-	2,485.31	132,235.84
Committed	7,805.42	-	-	-	7,805.42
Unassigned	736,119.11	-	(63,149.88)	-	672,969.23
Total Fund Balances	743,924.53	129,750.53	(63,149.88)	2,485.31	813,010.49
Total Liabilities and Fund Balances	\$ 745,819.31	\$ 129,750.53	\$ -	\$ 2,485.31	\$ 878,055.15

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

CITY OF GLENBURN
Glenburn, North Dakota

RECONCILIATION OF STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds \$ 813,010.49

*Amounts reported for governmental activities in the
Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources, so are not reported in the governmental funds.

Cost of Capital Assets	1,077,507.78	
Less Accumulated Depreciation	<u>(158,822.42)</u>	
Net Capital Assets		918,685.36

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and, accordingly, are not reported in the governmental funds.

Sales Tax Bond Payable	(141,000.00)	
Refunding Improvement Bonds	(275,000.00)	
Compensated Absences	(7,672.46)	
Net Pension Liability	<u>(54,909.00)</u>	
Total Long-Term Liabilities		(478,581.46)

Discounts on bonds payable are treated as other financing uses in the governmental funds, but are deferred to future periods in the Statement of Net Position (amortized over the life of the bonds).

4,025.00

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Deferred Outflows of Resources Related to Pensions	17,690.05	
Deferred Inflows of Resources Related to Pensions	<u>(7,495.00)</u>	

Total Net Position of Governmental Activities \$ 1,267,334.44

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS-GOVERNMENTAL FUNDS
For the Year Ended December 31, 2016

	Major Funds				Total
	General Fund	Debt Service	Highway Fund	Cemetery Fund	
Revenues:					
Taxes	\$ 91,479.08	\$ 37,218.92	\$ -	\$ 1,918.79	\$ 130,616.79
Licenses, Permits and Fees	10,619.34	-	-	-	10,619.34
Intergovernmental	81,538.76	-	32,088.96	-	113,627.72
Fines and Forfeits	420.00	-	-	-	420.00
Interest and Dividends	4,181.88	-	-	-	4,181.88
Miscellaneous	4,368.62	-	-	-	4,368.62
Total Revenues	192,607.68	37,218.92	32,088.96	1,918.79	263,834.35
Expenditures:					
Current:					
General Government	127,176.62	-	-	1,918.79	129,095.41
Public Safety	16,020.00	-	-	-	16,020.00
Public Works	22,986.29	-	52,198.41	-	75,184.70
Health and Welfare	11,941.00	-	-	-	11,941.00
Culture and Recreation	4,253.53	-	-	-	4,253.53
Capital Outlay	-	-	14,260.78	-	14,260.78
Debt Service:					
Principal	-	47,000.00	-	-	47,000.00
Interest	-	13,353.75	-	-	13,353.75
Bank Fees	-	1,230.00	-	-	1,230.00
Total Expenditures	182,377.44	61,583.75	66,459.19	1,918.79	312,339.17
Net Change in Fund Balances	10,230.24	(24,364.83)	(34,370.23)	-	(48,504.82)
Fund Balance - January 1	733,694.29	154,115.36	(28,779.65)	2,485.31	861,515.31
Fund Balance - December 31	\$ 743,924.53	\$ 129,750.53	\$ (63,149.88)	\$ 2,485.31	\$ 813,010.49

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

CITY OF GLENBURN
Glenburn, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2016

Net Change in Fund Balances-Total Governmental Funds \$ (48,504.82)

*Amounts reported for governmental activities in the
Statement of Activities are 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.

Current Year Capital Outlay	14,260.78	
Current Year Depreciation Expense	<u>(20,761.44)</u>	(6,500.66)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net increase in Compensated Absences		(408.79)
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Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position. Additionally, premiums or discounts related to the debt are included on the Statement of Net Position and amortized to interest expense over the life of the debt in the Statement of Activities.

Amortization of Bond Premium	(350.00)	
Principal Payments of Bonds Payable	<u>47,000.00</u>	46,650.00

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contribution is reported as pension expense.

		<u>(246.95)</u>
Change in Net Position of Governmental Activities	<u>\$</u>	<u>(9,011.22)</u>

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2016

	Business-Type Activities-Enterprise Funds		
	Major Funds		Total
	Water	Sewer	
ASSETS:			
Current Assets:			
Cash and Investments	\$ 13,860.07	\$ 167,728.02	\$ 17,889.61
Noncurrent Assets:			
Cash Restricted by Debt Covenants	-	27,725.00	-
Capital Assets (Net of Accumulated Depreciation)	42,458.21	697,111.44	-
	42,458.21	724,836.44	-
Total Assets	56,318.28	892,564.46	17,889.61
			966,772.35
LIABILITIES:			
Current Liabilities:			
Current Portion of Long-Term Debt	-	20,000.00	-
Noncurrent Liabilities:			
Long-Term Debt, Net of Current Portion	-	270,000.00	-
Total Liabilities	-	290,000.00	-
			290,000.00
NET POSITION:			
Net Investment in Capital Assets	42,458.21	407,111.44	-
Restricted for Debt Service	-	27,725.00	-
Unrestricted	13,860.07	167,728.02	17,889.61
Total Net Position	\$ 56,318.28	\$ 602,564.46	\$ 17,889.61
			\$ 676,772.35

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

Business-Type Activities-Enterprise Funds

	Major Funds			Total
	Water	Sewer	Garbage	
<u>Operating Revenues:</u>				
Charges for Services	\$ 81,127.72	\$ 50,884.66	\$ 31,018.47	\$ 163,030.85
<u>Operating Expenditures:</u>				
Water	71,828.78	-	-	71,828.78
Sewer	-	8,730.56	-	8,730.56
Garbage	-	-	32,178.00	32,178.00
Interest	-	7,750.00	-	7,750.00
Bank Fees	-	1,550.00	-	1,550.00
Depreciation	987.25	25,254.71	-	26,241.96
Total Operating Expenditures	72,816.03	43,285.27	32,178.00	148,279.30
Change in Net Position	8,311.69	7,599.39	(1,159.53)	14,751.55
Net Position - January 1	48,006.59	594,965.07	19,049.14	662,020.80
Net Position - December 31	\$ 56,318.28	\$ 602,564.46	\$ 17,889.61	\$ 676,772.35

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

CITY OF GLENBURN
Glenburn, North Dakota

STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2016

	Business-Type Activities-Enterprise Funds			Total
	Major Funds			
	Water	Sewer	Garbage	
Cash Flows From Operating Activities:				
Receipts from Customers	\$ 81,127.72	\$ 50,884.66	\$ 31,018.47	\$ 163,030.85
Payments to Suppliers	(71,828.78)	(8,730.56)	(32,178.00)	(112,737.34)
Payments for Interest and Bank Fees	-	(9,300.00)	-	(9,300.00)
Net Cash Provided (Used) by Operating Activities	9,298.94	32,854.10	(1,159.53)	40,993.51
Cash Flows From Investing Activities:				
Increase in Restricted Cash	-	-	-	-
Cash Flows From Non-Capital Financing Activities:				
Transfers In	-	-	-	-
Cash Flows From Financing Activities:				
Payments on Long-Term Debt	-	(20,000.00)	-	(20,000.00)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,298.94	12,854.10	(1,159.53)	20,993.51
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,561.13	154,873.92	19,049.14	178,484.19
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,860.07	\$ 167,728.02	\$ 17,889.61	\$ 199,477.70
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 8,311.69	\$ 7,599.39	\$ (1,159.53)	\$ 14,751.55
Net Cash Provided (Used) by Operating Activities	\$ 9,298.94	\$ 32,854.10	\$ (1,159.53)	\$ 40,993.51
Depreciation	(987.25)	(25,254.71)	-	(26,241.96)
	\$ 8,311.69	\$ 7,599.39	\$ (1,159.53)	\$ 14,751.55

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

CITY OF GLENBURN
Glenburn, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Glenburn, North Dakota (the city) provides general public services to property owners within the city, including but not limited to roads, water, sewer and garbage collection services.

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 of Glenburn. 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 Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria includes appointing a voting majority of an organization's governing body or an organization being fiscally dependent 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 Glenburn as a reporting entity.

B. Financial Statement Presentation

The city's accounting policy is to maintain the accounting records and present its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities display information about the primary government, the City of Glenburn. These statements include the financial activities of the overall government, except for fiduciary activities and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The Statement of Net Position presents the city's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed in net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for different business-type activities and 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, fines 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.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund provides a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories as prescribed by GASB Statement No. 34 and amended by GASB Statement No. 65. Nonmajor governmental funds, if there is more than one, are combined and reported in aggregate.

The major funds of the city's financial reporting entity are described below within their respective fund types. The city currently has no fiduciary funds.

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.

Debt Service Fund. This fund accounts for sales tax revenue for the purpose of paying the principal and interest on the Sales Tax Revenue Bonds and the Refunding Improvement Bonds.

Capital Projects Fund. This fund accounts for the proceeds of the Refunding Improvement Bonds and the cost of construction for the new street project.

Highway Fund. This special revenue fund accounts for revenues legally required to be used for roads, and the related costs of repairing or construction of the roads.

Proprietary Funds:

The city's proprietary funds consist of three enterprise funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The city's three enterprise funds are as follows:

Water Fund. This fund accounts for the activity of the water department. The department operates the water distribution system of City of Glenburn.

Sewer Fund. This fund accounts for the activities of the sewer department. This department operates the sewage treatment plant, sewage pumping stations and collection systems in the City of Glenburn.

Garbage Fund. This fund accounts for the activities of the garbage collection system within the City of Glenburn.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *how* transactions are recorded within the various financial statements, and include the economic resources measurement focus and the current financial resources measurement focus.

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 non-financial) are reported in the financial statements.

Current financial resources measurement focus: Under this measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available, spendable financial resources during any given period. Using the current financial resources measurement focus, principal and interest on long-term debt, claims and judgments, and compensated absences are recorded as expenditures, and proceeds of general long-term debt and acquisitions under capital leases to be reported as other financing sources.

Basis of accounting refers to *when* the transactions are recorded, regardless of the measurement focus applied. The only basis of accounting used by the City of Glenburn is the modified cash basis of accounting as discussed below.

Government-wide Financial Statements

Both governmental and enterprise funds are reported using the economic resources measurement focus and the modified cash basis of accounting in the government-wide financial statements. The modified cash basis of accounting recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions, with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

If the city utilized the basis of accounting recognized as generally accepted, all government-wide financial statements would be presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting in the governmental fund financial statements. Under this method, revenues are recognized and expenditures are recorded as described above with respect to the modified cash basis of accounting. If the city utilized the basis of accounting recognized as generally accepted, fund financial statements for governmental funds would use the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when measurable and available (i.e., when they are collectable within the current year or soon enough thereafter to pay liabilities of the current year).

Proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting, as described above. If the city utilized the basis of accounting recognized as generally accepted, fund financial statements for proprietary fund types would use the accrual basis of accounting. As such, their revenues would be recognized when they are earned, and their expenses would be recognized when they are incurred.

The proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting for each of its major governmental funds. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

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 governing board 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 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 governing board may amend the budget during the year for any revenue 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 proceedings of the board.
- All annual appropriations lapse at year-end.

E. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits and money market accounts. Cash equivalents on the Statement of Cash Flows consist of highly liquid investments with an original maturity of three months or less. Deposits must be either deposited in the Bank of North Dakota or in another financial institution situated and doing business within this state. Deposits, other than those with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the city to invest in:

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

At December 31, 2016, the City of Glenburn's investments included \$212,500.00 certificates of deposit stated at cost.

G. Capital Assets

Capital assets include infrastructure, buildings and equipment. Capital assets are defined by the city as assets with an initial, individual cost of \$5,000.00 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 the 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	50 years
Infrastructure	50 years
Equipment	7 to 10 years
Vehicles	7 to 10 years

H. Noncurrent Obligations

Noncurrent obligations include long-term debt, compensated absences and net pension liabilities. In the government-wide financial statements, non-current obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums or discounts are capitalized and amortized over the term of the related obligation. Bond issuance costs are recorded as expenditures when paid.

Long-Term Debt

With respect to the presentation of governmental funds in the governmental fund financial statements, the face amount of debt issued is reported as another financing source. 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.

Compensated Absences

Each continuous full-time employee is granted vacation benefits from 96 hours to 192 hours per year based on years of service. The maximum number of vacation hours that can be carried over at year-end is a total of 240 hours. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month (96 hours per year) and there is no maximum accumulation. Upon termination, employees are not paid for any sick leave accumulated but are paid for all vacation earned up to the date of separation. Vested or accumulated leave for governmental funds is reported in the government-wide statements. Vested or accumulated leave for proprietary fund operations are accounted for in those funds.

The liability for the portion of compensated absences related to annual leave is reported in the government-wide Statement of Net Position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the the North Dakota Public Employees Retirement System (NDPERS), and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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

J. Fund Equity

In the governmental fund financial statements, governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassignable.

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, and other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance - represents amounts that can only be used for specific purposes imposed by a formal action of the city's highest level of decision-making authority, the city council. Committed resources cannot be used for any other purpose unless the city council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned Fund Balance - represents amounts the city intends to use for specific purposes as expressed by the city council or an official delegated the authority to assign amounts. As of December 31, 2016, the city council has not granted any official the right to assign amounts to a specific purpose.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the city's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications - committed, assigned and then unassigned fund balances. The city has not established a policy for its use of unrestricted fund balance amounts. As such, it considers committed amounts to be reduced first, followed by assigned amounts, and then by unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 2: CASH AND INVESTMENTS

At December 31, 2016, the deposits of the city were entirely covered by federal depository insurance or by collateral held by the city's custodial bank in the city's name. During the year ended December 31, 2016, the city held investments in three certificates of deposit held at First Western Bank and Trust in amounts of \$100,000.00, \$100,000.00 and \$12,500.00.

Custodial and Concentration of credit risk:

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the city will not be able to recover collateral securities that are not in the possession of an outside party. As discussed in Note 1-F, state statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. During the year ended December 31, 2016, city deposits were adequately protected by insurance or collateral. These deposits are Category 1 deposits that include insured and registered investments for which the securities are held by the city.

Interest rate risk:

The city does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Generally, the longer the maturity period of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All of the city's certificates of deposit have final maturity dates within one year.

NOTE 3: CASH RESTRICTED BY DEBT COVENANTS

Cash restricted by debt covenants consists of amounts required to be deposited into a reserve account under the terms of the bond payable, as discussed in Note 7. Beginning September 1, 2010, \$5,545.00 must be deposited in the reserve account each September 1 through 2014, resulting in a final reserve balance of \$27,725.00. As of December 31, 2016, the balance of the reserve was \$27,725.00.

NOTE 4: INVESTMENTS IN COOPERATIVES

Investments in cooperatives consist of the accumulated equity of patronage dividends received from cooperatives from which the city purchases telecommunication services and fuel. The individual cooperative balances are as follows:

Souris River Telecommunications	\$ 7,623.17
Cenex of Minot	<u>2,801.72</u>
	<u>\$ 10,424.89</u>

NOTE 5: CAPITAL ASSETS

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

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,500.00	\$ -	\$ -	\$ 4,500.00
<i>Capital Assets Being Depreciated:</i>				
Buildings	\$ 257,873.00	\$ -	\$ -	\$ 257,873.00
Infrastructure	692,278.25	14,260.78	-	706,539.03
Equipment	96,395.75	-	-	96,395.75
Vehicles	12,200.00	-	-	12,200.00
Total Capital Assets Being Depreciated	1,058,747.00	14,260.78	-	1,073,007.78
<i>Less Accumulated Depreciation for:</i>				
Buildings	17,951.98	5,157.46	-	23,109.44
Infrastructure	26,209.55	11,139.53	-	37,349.08
Equipment	81,699.45	4,464.45	-	86,163.90
Vehicles	12,200.00	-	-	12,200.00
Total Accumulated Depreciation	138,060.98	20,761.44	-	158,822.42
Total Capital Assets Being Depreciated, Net	\$ 920,686.02	\$ (6,500.66)	\$ -	\$ 914,185.36

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2016
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 31,575.00	\$ -	\$ -	\$ 31,575.00
<i>Capital Assets Being Depreciated:</i>				
Infrastructure	\$ 765,998.02	\$ -	\$ -	\$ 765,998.02
Equipment	109,220.00	-	-	109,220.00
Total Capital Assets Being Depreciated	875,218.02	-	-	875,218.02
<i>Less Accumulated Depreciation for:</i>				
Infrastructure	86,371.41	15,319.96	-	101,691.37
Vehicles	54,610.00	10,922.00	-	65,532.00
Total Accumulated Depreciation	140,981.41	26,241.96	-	167,223.37
Total Capital Assets Being Depreciated, Net	\$ 734,236.61	\$ (26,241.96)	\$ -	\$ 707,994.65

Depreciation expense was charged to public works under governmental activities in the Statement of Activities.

NOTE 6: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Like revenues and expenses, deferrals represent flows of resources into and out of a government during the fiscal year. However, unlike revenues and expenses, which are inflows and outflows of resources related to the period in which they occur, deferrals are related to future periods.

Deferred inflows and outflows on the city's statement of net position are related to the determination of the city's net pension liability and pension expense, as detailed in Note 11.

Deferred inflows of resources on the fund financial statements consist 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.

NOTE 7: NONCURRENT LIABILITIES

During the year ended December 31, 2016, the following changes occurred in the noncurrent liabilities of the city:

	Balance			Balance
	01/01/2016	Additions	Deletions	12/31/2016
SRF Loan	\$ 310,000.00	\$ -	\$ (20,000.00)	\$ 290,000.00
Sales Tax Bond Payable	163,000.00	-	(22,000.00)	141,000.00
Refunding Improvement Bond Payable	300,000.00	-	(25,000.00)	275,000.00
Compensated Absences	7,263.67	408.79	-	7,672.46
	<u>\$ 780,263.67</u>	<u>\$ 408.79</u>	<u>\$ (67,000.00)</u>	<u>\$ 713,672.46</u>

Current portion due within one year:

SRF Loan	\$ 20,000.00
Bonds Payable	47,000.00
	<u>\$ 67,000.00</u>

Compensated Absences:

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

Loans and Bonds Payable:

SRF Loan

On June 26, 2009, the City of Glenburn was granted a loan in the amount of \$824,900.00 under the Clean Water State Revolving Fund Program, which is considered a federal award. The loan is primarily being used to expand Glenburn's lagoon and improve the city's lift station.

Upon closing, \$412,450.00 of the loan was forgiven, with the remaining \$412,450.00 being granted in the form of a revenue bond. Cash from both the bond and the grant is received by the city upon submission of requests for payment for bills due stemming from the lagoon and lift station improvements, as well as dredging the lagoon and purchasing a tractor.

The bond is dated July 1, 2009 and matures on September 1, 2029. Payments began in 2010 and are made semi-annually. The average annual payment, including principal and interest, is \$26,546.00. The bond's interest rate is 2.5 percent. The bond payable is secured by the operating income, excluding depreciation and interest expense, of the Sewer Fund.

As of December 31, 2016, the balance owed on the loan was \$290,000.00. Debt service requirements are as follows:

Year	SRF Loan		
	Principal	Interest	Total
2017	20,000.00	7,225.00	27,225.00
2018	20,000.00	6,725.00	26,725.00
2019	20,000.00	6,225.00	26,225.00
2020	20,000.00	5,725.00	25,725.00
2021	20,000.00	5,225.00	25,225.00
2022-2026	113,000.00	18,325.00	131,325.00
2027-2029	77,000.00	3,825.00	80,825.00
Totals	\$ 290,000.00	\$ 53,275.00	\$ 343,275.00

Additionally, the city was required to establish a reserve account under the terms of the bond payable. Beginning September 1, 2010, \$5,545 was required to be deposited in the reserve account each September 1 through 2014, resulting in a final reserve balance of \$27,725.00. As of December 31, 2016, the balance of the reserve was \$27,725.00.

Sales Tax Revenue Bond

On November 5, 2012, the City of Glenburn authorized the issuance of the Sales Tax Revenue Bonds of 2012 in the amount of \$250,000.00 to purchase a building for use as a city shop and to house equipment, materials and supplies necessary to maintain the streets, water and sewer systems. The bonds are dated November 30, 2012, with annual principal payments ranging from \$20,000 to \$25,000, and semi-annual interest payments at a 2% rate. Payments end on December 1, 2022. The bonds are included in the General Fund, paid for by the Debt Service Fund, and are payable from a two percent city sales tax.

Refunding Improvement Bonds

On July 15, 2013, the City of Glenburn authorized the issuance of the Refunding Improvement Bonds of 2015 in the amount of \$350,000.00 to pave Chelsey Street. The bonds are dated July 15, 2013, and annual principal payments ranging from \$20,000 to \$25,000 with semi-annual interest payments ranging from 2.75% to 4%. Payments end on May 1, 2028. The bond payable and its related discount of \$5,250.00 were recorded in noncurrent liabilities in the Construction Fund, paid for by the Debt Service Fund, and are payable from special assessment real estate taxes.

The discount was capitalized and will be amortized to interest expense on a straight-line basis (as the difference between the straight-line and effective interest methods was immaterial). The amount amortized in the current year was \$350.00.

Debt service requirements are as follows:

Year	Bonds		
	Principal	Interest	Total
2017	47,000.00	12,226.25	59,226.25
2018	48,000.00	11,098.75	59,098.75
2019	48,000.00	9,951.25	57,951.25
2020	49,000.00	8,803.75	57,803.75
2021	49,000.00	7,480.00	56,480.00
2022-2026	135,000.00	18,900.00	153,900.00
2027-2028	40,000.00	1,600.00	41,600.00
Totals	\$ 416,000.00	\$ 70,060.00	\$ 486,060.00

NOTE 8: RESTRICTED AND UNRESTRICTED NET POSITION

Restricted net position at December 31, 2016 stems from the contractual terms of the bond payable, as discussed above in Notes 3 and 7. Additionally, a small amount of restricted net position relates to tax revenues that are required to be used for the cemetery. Unrestricted net position consists of undesignated net position and net position designated for specific purposes. Undesignated net position may be used for any purpose that the city deems proper.

NOTE 9: FUND BALANCE

Fund balance as of December 31, 2016 is as follows:

	General Fund	Debt Service	Highway Fund	Cemetery Fund	Total
Fund Balances:					
Restricted					
Debt Service	\$ -	\$ 129,750.53	\$ -	\$ -	\$ 129,750.53
Cemetery	-	-	-	2,485.31	2,485.31
Committed					
Advertising	1,548.04	-	-	-	1,548.04
Emergency	6,257.38	-	-	-	6,257.38
Unassigned	736,119.11	-	(63,149.88)	-	672,969.23
	<u>\$ 743,924.53</u>	<u>\$ 129,750.53</u>	<u>\$ (63,149.88)</u>	<u>\$ 2,485.31</u>	<u>\$ 813,010.49</u>

NOTE 10: 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.

NOTE 11: PENSION PLANS

The city has one employee pension plans, the North Dakota Public Employees Retirement System (NDPERS).

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the Board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

- * 1 to 12 months of service - Greater of one percent of monthly salary or \$25
- * 13 to 24 months of service - Greater of two percent of monthly salary or \$25
- * 25 to 36 months of service - Greater of three percent of monthly salary or \$25
- * Longer than 36 months of service - Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the city reported a total liability of \$54,909.00 for its proportionate share of NDPERS' net pension liability. The net pension liability was measured as of July 1, 2016, and the total pension liability used to calculate the net pension liability for the plan was determined by an actuarial valuation as of that date.

The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating NDPERS Main System employers. At July 1, 2016 the city's proportion related to NDPERS was 0.005634 percent, which was a decrease of 0.000469 percent from its proportion measured as of July 1, 2015.

For the year ended December 31, 2016 the city recognized total pension expense of \$6,351.00, related to NDPERS. At December 31, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	NDPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 825.00	\$ 508.00
Changes of assumption	5,062.00	2,728.00
Net difference between projected and actual earnings on pension plan investments	7,661.00	-
Changes in proportion and differences between district contributions and proportionate share of contributions	-	4,259.00
District contributions subsequent to the measurement date	4,142.05	-
Total	<u>\$ 17,690.05</u>	<u>\$ 7,495.00</u>

\$4,142.05 reported as deferred outflows of resources related to pensions resulting from the city's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	NDPERS
Year Ended December 31:	
2017	\$ 921.00
2018	921.00
2019	2,592.00
2020	1,332.00
2021	287.00
Thereafter	-

Actuarial assumptions:

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	NDPERS
Inflation	3.50%
Salary Increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the city's proportionate share of the net pension liability calculated using the discount rate of 8 percent for NDPERS, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	District's Proportionate Share of Net Pension Liability		
	Current Discout		
	1% Decrease (7.00%)	Rate (8.00%)	1% Increase (9.00%)
NDPERS	\$ 77,887.00	\$ 54,909.00	\$ 35,548.00

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

NOTE 12: RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Glenburn pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile insurance and \$255,960.00 for inland marine coverage.

The City of Glenburn also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Glenburn 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 two million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City of Glenburn with blanket fidelity bond coverage in the amount of \$331,000.00 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Glenburn has insurance with North Dakota Workforce Safety and Insurance. The City of Glenburn provides a wage benefit paid directly to the full-time city manager for the purchase of health insurance. The benefit is prorated for the part-time city auditor.

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

NOTE 13: SUBSEQUENT EVENTS

The city has evaluated subsequent events through November 17, 2017 the date which the financial statements were available to be issued.

CITY OF GLENBURN
Glenburn, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
GENERAL FUND
For the Year Ended December 31, 2016

	Original and Final	Actual	Variance with Final Budget
<u>Revenues:</u>			
Taxes	\$ 148,020.00	\$ 91,479.08	\$ (56,540.92)
Licenses, Permits and Fees	2,650.00	10,619.34	7,969.34
Intergovernmental	113,200.00	81,538.76	(31,661.24)
Fines and Forfeits	200.00	420.00	220.00
Interest and Dividends	4,550.00	4,181.88	(368.12)
Miscellaneous	25,130.00	4,368.62	(20,761.38)
Total Revenues	293,750.00	192,607.68	(101,142.32)
<u>Expenditures:</u>			
Current:			
General Government	140,750.00	127,176.62	13,573.38
Public Safety	17,500.00	16,020.00	1,480.00
Public Works	109,100.00	22,986.29	86,113.71
Health and Welfare	22,200.00	11,941.00	10,259.00
Culture and Recreation	4,200.00	4,253.53	(53.53)
Capital Outlay		-	-
Total Expenditures	293,750.00	182,377.44	111,372.56
Net Change in Fund Balances	-	10,230.24	10,230.24
Fund Balance - January 1	733,694.29	733,694.29	-
Fund Balance - December 31	\$ 733,694.29	\$ 743,924.53	\$ 10,230.24

See accompanying notes to required supplementary information.

CITY OF GLENBURN
Glenburn, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
DEBT SERVICE FUND
For the Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>			
Taxes	\$ 29,000.00	\$ 37,218.92	\$ 8,218.92
<u>Expenditures:</u>			
Debt Service:			
Principal	42,000.00	47,000.00	(5,000.00)
Interest and Bank Fees	12,530.00	14,583.75	(2,053.75)
Total Expenditures	54,530.00	61,583.75	(7,053.75)
Net Change in Fund Balances	(25,530.00)	(24,364.83)	1,165.17
Fund Balance - January 1	154,115.36	154,115.36	-
Fund Balance - December 31	\$ 128,585.36	\$ 129,750.53	\$ 1,165.17

See accompanying notes to required supplementary information.

CITY OF GLENBURN
Glenburn, North Dakota

BUDGETARY COMPARISON SCHEDULE-MODIFIED CASH BASIS
HIGHWAY FUND
For the Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<u>Revenues:</u>			
Intergovernmental	\$ 260,800.00	\$ 32,088.96	\$ (228,711.04)
<u>Expenditures:</u>			
Current:			
Public Works	260,800.00	52,198.41	208,601.59
Capital Outlay	-	14,260.78	(14,260.78)
Total Expenditures	260,800.00	66,459.19	194,340.81
Net Change in Fund Balances	-	(34,370.23)	(34,370.23)
Fund Balance - January 1	(28,779.65)	(28,779.65)	-
Fund Balance - December 31	\$ (28,779.65)	\$ (63,149.88)	\$ (34,370.23)

See accompanying notes to required supplementary information.

CITY OF GLENBURN
Glenburn, North Dakota

SCHEDULE OF CITY'S SHARE OF NET PENSION LIABILITY
LAST 10 FISCAL YEARS*

ND Public Employees Retirement System:	As of and for the Year Ended December 31,		
	2016	2015	2014
1. City's proportion of the net pension liability (asset)	0.005634%	0.006103%	0.006341%
2. City's proportionate share of the net pension liability (asset)	\$54,909.00	\$41,499.00	\$40,248.00
3. City's covered-employee payroll	\$56,773.00	\$54,371.00	\$53,414.00
4. City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	96.72%	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	70.46%	77.15%	77.70%

* Complete data for these schedules is not available prior to 2015. The amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

See accompanying notes to required supplementary information.

CITY OF GLENBURN
Glenburn, North Dakota

SCHEDULES OF CITY'S CONTRIBUTIONS
LAST 10 FISCAL YEARS*

ND Public Employees Retirement System:	As of and for the Year Ended December 31,		
	2016	2015	2014
Statutorily required contribution	\$4,111.00	\$4,130.00	\$3,803.00
Contributions in relation to the statutorily required contribution	(\$4,042.00)	(\$3,871.00)	(\$3,803.00)
Contribution deficiency (excess)	\$69.00	\$259.00	\$0.00
City's covered-employee payroll	\$56,773.00	\$54,371.00	\$53,414.00
Contributions as a percentage of covered-employee payroll	7.12%	7.12%	7.12%

* Complete data for these schedules is not available prior to 2015.

See accompanying notes to required supplementary information.

CITY OF GLENBURN
Glenburn, North Dakota

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2016

NOTE 1: BUDGETARY COMPARISON SCHEDULE

Basis of Accounting:

Based upon available financial information, the city auditor prepares the city's budget. The budget is prepared on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them.

Relevant Dates:

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 governing board 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 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 governing board may amend the budget during the year for any revenue 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 proceedings of the board.
- All annual appropriations lapse at year-end.

Actual Expenditures in Excess of Budget:

The city's expenditures exceeded budget in the Debt Service Fund by \$7,053.75 during 2016. No remedial action is anticipated or required by the city with respect to these excess expenditures.

NOTE 2: PENSION PLANS

NDPERS Changes of Assumptions. Amounts related to NDPERS reported in 2016 reflect actuarial assumption changes effective July 1, 2015 and later based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

LERVIK & JOHNSON

Certified Public Accountants

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 Glenburn
Glenburn, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Glenburn, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Glenburn, North Dakota's basic financial statements and have issued our report thereon dated November 17, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in the City of Glenburn, North Dakota's internal control described in the accompanying schedule of findings and responses, items 16-1 and 16-2, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Glenburn, North Dakota'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 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 Glenburn, North Dakota's Response to Findings

City of Glenburn, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Glenburn, North Dakota's response was not subjected to the auditing procedures applied in the audit 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 entity's internal control or on noncompliance. 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.



LERVIK & JOHNSON
Certified Public Accountants
Bottineau, North Dakota

November 17, 2017

CITY OF GLENBURN
Glenburn, North Dakota

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2016

FINDINGS-FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

16-1 Segregation of Duties

Condition:

The City of Glenburn, North Dakota, has one employee 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 the assets of the City of Glenburn.

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 of Glenburn's financial condition.

Recommendation:

Due to the size of the City of Glenburn, it is not feasible to obtain proper separation of duties and no recommendation will be made.

Client Response:

No response is considered necessary.

16-2 Preparation of Financial Statements

Condition:

The City of Glenburn does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to assist in drafting the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria:

A good system of internal accounting control contemplates a system designed to prepare financial statements in accordance with generally accepted accounting principles.

Effect:

Inadequate controls over financial reporting of the City of Glenburn result in the more than remote likelihood that the city would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation:

While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the city and changes in reporting requirements.

Management's Response:

Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Lervik and Johnson P.C., a public accounting firm, to assist in the preparation of the financial statements as part of their annual audit of the City of Glenburn, North Dakota.