

AUDIT REPORT

CITY OF KENMARE
Kenmare, North Dakota

For the Years Ended December 31, 2015 and 2014

RATH & MEHRER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF KENMARE
Kenmare, North Dakota

TABLE OF CONTENTS
For the Years Ended December 31, 2015 and 2014

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-14
 BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	15,16
Statement of Activities -- Modified Cash Basis	17,18
Balance Sheet - Modified Cash Basis - Governmental Funds	19,20
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	21,22
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	23,24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	25,26
Statement of Net Position - Modified Cash Basis - Proprietary Funds	27,28
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	29,30
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	31,32
Notes to the Financial Statements	33-53
 REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules - Modified Cash Basis General Fund	54,55
Notes to the Budgetary Comparison Schedules	56
 SUPPLEMENTARY INFORMATION	
Schedule of Fund Activity Arising from Cash Transactions	57,58
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	59
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	60-61
Schedule of Findings and Responses	62-63
Management Letter	64

CITY OF KENMARE
Kenmare, North Dakota

CITY OFFICIALS

Roger Ness	Mayor
Troy Hedberg	President
Terese Skjordal	Vice President
Todd Ankenbauer	Alderman
Dwight Flygare	Alderman
Ken Keysor	Alderman
Paul Christian Standard	Alderman
Marki Ellis	Auditor

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INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Kenmare
Kenmare, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kenmare, Kenmare, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Basis of Accounting

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

Other Matters

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2016 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 16, 2016

CITY OF KENMARE

Management's Discussion and Analysis

December 31, 2015 and 2014

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

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

FINANCIAL HIGHLIGHTS

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

- * Total net position of the city increased \$1,497,234 as a result of the current year's operations. Net position of the governmental activities increased \$113,882 and net position of the business-type activities increased \$1,383,352.
- * Governmental net position totaled \$2,501,577 and business-type net position totaled \$3,773,641.
- * Total revenues from all sources were \$2,067,912 for governmental activities and \$2,081,088 for business-type activities.
- * Total expenses were \$1,999,030 for governmental activities and \$652,736 for business-type activities.
- * The city's general fund had \$816,077 in total revenues and \$925,073 in total expenditures. There was a total of \$45,000 from other financing sources. Overall, the general fund balance decreased by \$63,996 for the year ended December 31, 2015.

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

- * Total net position of the city increased \$1,469,657 as a result of the current year's operations. Net position of the governmental activities increased \$496,341 and net position of the business-type activities increased \$973,316.
- * Governmental net position totaled \$2,643,700 and business-type net position totaled \$2,390,289.
- * Total revenues from all sources were \$1,937,666 for governmental activities and \$1,575,106 for business-type activities.
- * Total expenses were \$1,315,926 for governmental activities and \$727,190 for business-type activities.
- * The city's general fund had \$380,619 in total revenues and \$434,448 in total expenditures. Overall, the general fund balance decreased by \$53,828 for the year ended December 31, 2014.

USING THIS ANNUAL REPORT

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

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

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

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

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

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

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

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

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

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

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, sales tax fund and street improvement district no. 8 fund are considered "major governmental funds". The city's water fund, garbage and landfill fund and water and sewer improvement district 1993-1 fund are considered "major enterprise funds".

The city's other funds, which are used to account for a multitude of financial transactions, are summarized under the heading "Other Governmental Funds" and "Other Enterprise Funds".

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

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

As indicated in the financial highlights above, the city's net position increased by \$1,497,234 and \$1,469,657 for the years ended December 31, 2015 and 2014, respectively. Changes in net position may serve over time as a useful indicator of the city's financial position.

As of December 31, 2015, the city's net position of \$6,275,218 is segregated into three separate categories. Net investment in capital assets totals \$5,607,756. It should be noted that these assets are not available for future spending. The restricted component of net position is \$808,164 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is (\$140,702), which includes (\$241,619) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$100,917 is available to meet the city's ongoing obligations.

Table I
 Net Position
 As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	375,575	540,196
Capital Assets (net of accumulated depreciation)	4,228,325	5,153,381
Total Assets	4,603,900	5,693,577
Deferred Outflows of Resources	43,183	
<u>Liabilities</u>		
Current Liabilities	206,939	153,700
Long-Term Liabilities	1,653,766	1,766,236
Net Pension Liability	238,287	
Total Liabilities	2,098,992	1,919,936
Deferred Inflows of Resources	46,515	
<u>Net Position</u>		
Net Investment in Capital Assets	2,374,311	3,233,445
Restricted	502,971	305,193
Unrestricted	(375,705)	235,003
Total Net Position	2,501,577	3,773,641

As of December 31, 2014, the city's net position of \$5,033,989 is segregated into three separate categories. Net investment in capital assets totals \$3,496,657. It should be noted that these assets are not available for future spending. The restricted component of net position is \$1,378,169 of the city's total net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$159,163 and is available to meet the city's ongoing obligations.

Net Position
 As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	985,712	572,077
Capital Assets (net of accumulated depreciation)	4,277,573	3,414,568
Total Assets	5,263,285	3,986,645
<u>Liabilities</u>		
Current Liabilities	685,114	154,739
Long-Term Liabilities	1,934,471	1,441,617
Total Liabilities	2,619,585	1,596,356
<u>Net Position</u>		
Net Investment in Capital Assets	1,678,445	1,818,212
Restricted	1,057,136	321,033
Unrestricted	(91,880)	251,044
Total Net Position	2,643,700	2,390,289

Net Position
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	1,078,535	420,396
Capital Assets (net of accumulated depreciation)	2,902,551	2,753,633
Total Assets	3,981,086	3,174,029
<u>Liabilities</u>		
Current Liabilities	267,695	160,700
Long-Term Liabilities	1,566,032	1,596,356
Total Liabilities	1,833,727	1,757,056
<u>Net Position</u>		
Net Investment in Capital Assets	1,068,824	996,577
Restricted	1,124,719	182,363
Unrestricted	(46,184)	238,034
Total Net Position	2,147,359	1,416,973

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

Table II
Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	155,072	680,953
Operating Grants and Contributions	1,200,950	
Capital Grants and Contributions		1,378,938
<u>General Revenues:</u>		
Property Taxes	194,186	
Other Taxes	328,506	
Intergovernmental - Unrestricted	110,326	
Interest Earnings and Other Revenue	55,504	21,197
Gain on Trade-in of Capital Assets	23,367	
Total Revenues	2,067,912	2,081,088
<u>Expenses</u>		
General Government	244,351	
Public Safety	268,376	
Streets and Public Works	1,087,160	
Urban and Economic Development	231,469	
Culture and Recreation	105,717	
Other	27,417	
Interest on Long-term Debt	34,541	
Water		236,704
Sewer		116,170
Garbage and Landfill		182,124
Water and Sewer Imp. District		117,738
Total Expenses	1,999,030	652,736
Net Change in Position Before Transfers	68,882	1,428,352
Transfers	45,000	(45,000)
Net Change in Position	113,882	1,383,352

Property taxes constituted 5%, other taxes 8%, unrestricted intergovernmental 3%, grants and contributions 62%, and charges for services made up 20% of the total revenues of all activities of the city for the fiscal year ended December 31, 2015.

General government constituted 9%, public safety 10%, streets and public works 41%, and enterprise 25% of total expenses for all activities during the fiscal year ended December 31, 2015.

Changes in Net Position
As of December 31, 2014

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	203,580	769,763
Operating Grants and Contributions	806,907	
Capital Grants and Contributions		787,458
<u>General Revenues:</u>		
Property Taxes	165,766	
Other Taxes	390,776	
Intergovernmental - Unrestricted	107,430	
Interest Earnings and Other Revenue	263,208	17,885
Total Revenues	<u>1,937,666</u>	<u>1,575,106</u>
Expenses		
General Government	331,004	
Public Safety	305,851	
Streets and Public Works	288,335	
Urban and Economic Development	233,953	
Culture and Recreation	108,130	
Health and Welfare	75	
Other	14,045	
Interest on Long-term Debt	34,532	
Water		290,892
Sewer		158,409
Garbage and Landfill		187,978
Water and Sewer Imp. District		89,911
Total Expenses	<u>1,315,926</u>	<u>727,190</u>
Net Change in Position Before Transfers	<u>621,740</u>	<u>847,916</u>
Transfers	<u>(125,400)</u>	<u>125,400</u>
Net Change in Position	<u>496,341</u>	<u>973,316</u>
	=====	=====

Property taxes constituted 5%, other taxes 11%, unrestricted intergovernmental 3%, grants and contributions 45%, and charges for services made up 28% of the total revenues of all activities of the city for the fiscal year ended December 31, 2014.

General government constituted 16%, public safety 15%, streets and public works 14%, and enterprise 36% of total expenses for all activities during the fiscal year ended December 31, 2014.

Changes in Net Position
As of December 31, 2013

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	188,020	722,754
Operating Grants and Contributions	459,366	
<u>General Revenues:</u>		
Property Taxes	135,562	
Other Taxes	303,160	
Intergovernmental - Unrestricted	100,686	
Interest Earnings and Other Revenue	392,257	5,620
Gain on Sale of Capital Assets	5,694	
Total Revenues	1,584,746	728,374
Expenses		
General Government	263,495	
Public Safety	200,774	
Streets and Public Works	473,647	
Urban and Economic Development	36,172	
Culture and Recreation	87,370	
Health and Welfare	32,405	
Other	128,208	
Interest on Long-term Debt	40,296	
Water		264,203
Sewer		53,009
Garbage and Landfill		183,560
Water and Sewer Imp. District		137,582
Total Expenses	1,262,368	638,354
Net Change in Position	322,378	90,020

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

Table III

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

	Total Cost Year Ended <u>Dec. 31, 2015</u>	Net Cost Year Ended <u>Dec. 31, 2015</u>
General Government	244,351	223,355
Public Safety	268,376	216,035
Streets and Public Works	1,087,160	383,018
Urban and Economic Development	231,469	6,582
Culture and Recreation	105,717	13,128
Other	27,417	27,417
Interest on Long-term Debt	34,541	(226,527)
Total Expenses	<u>1,999,030</u> =====	<u>643,008</u> =====

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

	Total Cost Year Ended <u>Dec. 31, 2014</u>	Net Cost Year Ended <u>Dec. 31, 2014</u>
General Government	331,004	299,740
Public Safety	305,851	202,808
Streets and Public Works	288,335	61,091
Urban and Economic Development	233,953	8,285
Culture and Recreation	108,130	7,865
Health and Welfare	75	75
Other	14,045	14,045
Interest on Long-term Debt	34,532	(288,469)
Total Expenses	<u>1,315,926</u> =====	<u>305,439</u> =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$2,044,545 and expenditures of \$2,699,682 for the year ended December 31, 2015. For the year ended December 31, 2014, the city's governmental funds had total revenue of \$1,937,666 and expenditures of \$2,968,186. As of December 31, 2015, the unassigned fund balance of the city's general fund was (\$65,132) and total unassigned fund balances for all the city's governmental funds was (\$127,395). As of December 31, 2014, the unassigned fund balance of the city's general fund was (\$1,136) and total unassigned fund balances for all the city's governmental funds was (\$71,424).

GENERAL FUND BUDGET HIGHLIGHTS

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

Actual revenue for the year ended December 31, 2015 was \$455,845 more than budgeted. This budget variance was due to the city not budgeting for surge funding received during the year. Actual expenditures for the year ended December 31, 2015 were over budget by \$489,018. The budget variance was the result of the city not including appropriations for expenditures related to the surge funding.

Actual revenue for the year ended December 31, 2014 was \$18,813 more than budgeted. Actual expenditures for the year ended December 31, 2014 were over budget by \$54,578. This budget variance was due to the city underestimating appropriations for general government and public safety.

CAPITAL ASSETS

As of December 31, 2015 and 2014, the city had \$9,381,706 and \$7,692,141, respectively, invested in capital assets. The following tables show the balances, for governmental and business-type activities, as of December 31, 2015, 2014 and 2013.

Table IV

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

	<u>Governmental</u>	<u>Business- Type</u>
Land		20,000
Construction in Progress		2,483,000
Buildings and Infrastructure	3,920,307	2,642,048
Machinery and Vehicles	308,018	8,333
Total (net of depreciation)	<u>4,228,325</u> =====	<u>5,153,381</u> =====

This total represents an increase of \$1,689,565 in capital assets from January 1, 2015. This increase is the result of a street project, lagoon improvement project and the purchase of an Elgin Pelican street sweeper, John Deere 544K payloader and several other vehicles.

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

	<u>Governmental</u>	<u>Business- Type</u>
Land		20,000
Construction in Progress	747,805	745,000
Buildings and Infrastructure	3,277,648	2,648,918
Machinery and Vehicles	252,120	650
Total (net of depreciation)	<u>4,277,573</u> =====	<u>3,414,568</u> =====

This total represents an increase of \$2,035,957 in capital assets from January 1, 2014. This increase is the result of a street project, sidewalk and lighting project, lagoon improvement project and the purchase of a 2009 Ford Expedition and 2014 Dodge Charger for the police department.

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

	<u>Governmental</u>	<u>Business- Type</u>
Land		20,000
Buildings and Infrastructure	2,658,122	2,732,333
Machinery and Vehicles	244,429	1,300
Total (net of depreciation)	2,902,551	2,753,633

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

DEBT ADMINISTRATION

As of December 31, 2015, the city had \$3,780,641 in outstanding debt of which \$360,639 was due within one year. As of December 31, 2014, the city had \$4,215,941 in outstanding debt of which \$839,853 was due within one year. During fiscal years 2015 and 2014, the city issued four new long-term debt obligations:

Revenue Bonds Payable in the amount of \$164,383. The city issued the Water Revenue Bonds of 2011, fully funded amount of \$892,039, to fund phase 2 of a water tower project. The city has now received all available funds and these bonds will have a final payment on September 1, 2030.

Loan Payable in the amount of \$773,096.35. The city received a loan from Ward County to provide funding for the city's share of the 6th street improvement project. This loan will have a final payment on January 1, 2019.

Special Assessment Bonds Payable in the amount of \$290,000. The city received a loan from the State Bank of Kenmare to provide funding for the Street Improvement District No. 8. This loan will have a final payment on September 22, 2024.

Revenue Bonds Payable in the amount of \$313,935.98. The city obtained a loan (available funding of \$400,000) from the State Bank of Kenmare to provide funding for a lagoon improvement project. This loan is due in full on June 30, 2017.

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
ASSETS:				
Cash and Cash Equivalents	375,575.21	540,196.19	915,771.40	29,813.80
Capital Assets (net of accumulated depreciation):				
Land		20,000.00	20,000.00	
Construction in Progress		2,483,000.00	2,483,000.00	
Buildings and Infrastructure	3,920,307.00	2,642,048.00	6,562,355.00	1,096,846.00
Machinery and Vehicles	308,018.00	8,333.00	316,351.00	13,300.00
Total Capital Assets	4,228,325.00	5,153,381.00	9,381,706.00	1,110,146.00
Total Assets	4,603,900.21	5,693,577.19	10,297,477.40	1,139,959.80
DEFERRED OUTFLOWS OF RESOURCES				
Changes in Resources Related to Pensions	43,183.00		43,183.00	
LIABILITIES:				
Long-Term Liabilities:				
Due Within One Year:				
Loans Payable	89,111.59		89,111.59	5,000.00
Special Assessment Bonds Payable	117,827.14		117,827.14	
Revenue Bonds Payable		153,700.00	153,700.00	
Due After One Year:				
Loans Payable	267,334.76		267,334.76	
Special Assessment Bonds Payable	1,379,740.61		1,379,740.61	
Revenue Bonds Payable		1,766,235.98	1,766,235.98	
Compensated Absences Payable	6,690.55		6,690.55	
Net Pension Liability	238,287.00		238,287.00	
Total Liabilities	2,098,991.65	1,919,935.98	4,018,927.63	5,000.00
DEFERRED INFLOWS OF RESOURCES				
Changes in Resources Related to Pensions	46,515.00		46,515.00	
NET POSITION:				
Net Investment in Capital Assets	2,374,310.90	3,233,445.02	5,607,755.92	1,105,146.00
Restricted for:				
Debt Service	251,882.66	206,721.59	458,604.25	
Special Purposes	251,087.96	98,471.87	349,559.83	
Unrestricted	(375,704.96)	235,002.73	(140,702.23)	29,813.80
Total Net Position	2,501,576.56	3,773,641.21	6,275,217.77	1,134,959.80

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Airport Authority
ASSETS:				
Cash and Cash Equivalents	985,712.24	572,076.95	1,557,789.19	41,094.66
Capital Assets (net of accumulated depreciation):				
Land		20,000.00	20,000.00	
Construction in Progress	747,805.00	745,000.00	1,492,805.00	1,068,529.00
Buildings and Infrastructure	3,277,648.00	2,648,918.00	5,926,566.00	
Machinery and Vehicles	252,120.00	650.00	252,770.00	
Total Capital Assets	4,277,573.00	3,414,568.00	7,692,141.00	1,068,529.00
Total Assets	5,263,285.24	3,986,644.95	9,249,930.19	1,109,623.66
LIABILITIES:				
Long-Term Liabilities:				
Due Within One Year:				
Loans Payable	432,682.05		432,682.05	33,000.00
Special Assessment Bonds Payable	252,432.25		252,432.25	
Revenue Bonds Payable		154,739.00	154,739.00	
Due After One Year:				
Loans Payable	356,446.35		356,446.35	
Special Assessment Bonds Payable	1,557,567.75		1,557,567.75	
Revenue Bonds Payable		1,441,617.00	1,441,617.00	
Compensated Absences Payable	20,456.79		20,456.79	
Total Liabilities	2,619,585.19	1,596,356.00	4,215,941.19	33,000.00
NET POSITION:				
Net Investment in Capital Assets	1,678,444.60	1,818,212.00	3,496,656.60	1,035,529.00
Restricted for:				
Debt Service	472,597.77	237,796.41	710,394.18	
Special Purposes	584,538.08	83,236.90	667,774.98	
Unrestricted	(91,880.40)	251,043.64	159,163.24	41,094.66
Total Net Position	2,643,700.05	2,390,288.95	5,033,989.00	1,076,623.66

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Net (Expense) Revenue and Change in Net Position					Component Unit		
	Program Revenues		Primary Government					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport Authority
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	244,350.78	20,995.65			(223,355.13)		(223,355.13)	
Public Safety	268,375.79	12,275.00	40,065.80		(216,034.99)		(216,034.99)	
Streets and Public Works	1,087,159.86	6,064.16	698,078.16		(383,017.54)		(383,017.54)	
Urban and Economic Development	231,468.80	35,864.86	189,021.91		(6,582.03)		(6,582.03)	
Culture and Recreation	105,716.84	79,872.76	12,716.00		(13,128.08)		(13,128.08)	
Other	27,416.67				(27,416.67)		(27,416.67)	
Interest on Long-Term Debt	34,541.36		261,068.09		226,526.73		226,526.73	
Total Governmental Activities	1,999,030.10	155,072.43	1,200,949.96		(643,007.71)		(643,007.71)	
<u>Business-Type Activities:</u>								
Water	236,703.54	255,266.24				18,562.70	18,562.70	
Sewer	116,169.94	75,943.90				(40,226.04)	(40,226.04)	
Garbage and Landfill	182,124.36	196,924.20				14,799.84	14,799.84	
Water and Sewer Imp. District	117,738.03	152,818.55		1,378,937.84		1,414,018.36	1,414,018.36	
Total Business-Type Activities	652,735.87	680,952.89		1,378,937.84		1,407,154.86	1,407,154.86	
Total Primary Government	2,651,765.97	836,025.32	1,200,949.96	1,378,937.84	(643,007.71)	1,407,154.86	764,147.15	
Component Unit:								
Airport Authority	198,078.91	32,961.12	211,485.70					46,367.91

General Revenues:

Taxes:

Property taxes; levied for general purposes
 Property taxes; levied for special purposes
 City sales taxes
 Telecommunication taxes
 Cigarette taxes
 Oil and gas production taxes
 Homestead tax credit
 Intergovernmental revenue not restricted
 to specific programs
 Earnings on investments and other revenue
 Gain on trade-in of capital assets
 Transfers

96,071.71	96,071.71	10,350.09
98,114.50	98,114.50	
315,036.63	315,036.63	
3,584.20	3,584.20	
3,557.30	3,557.30	
2,326.29	2,326.29	
4,001.91	4,001.91	
110,325.60	110,325.60	
55,504.08	21,197.40	1,618.14
23,367.00	23,367.00	
45,000.00	(45,000.00)	

Total General Revenues and Transfers

756,889.22	(23,802.60)	733,086.62	11,968.23
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Change in Net Position

113,881.51	1,383,352.26	1,497,233.77	58,336.14
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Net Position - January 1

2,643,700.05	2,390,288.95	5,033,989.00	1,076,623.66
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Prior Period Adjustment, See Note 11

(256,005.00)	(256,005.00)		
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Net Position - January 1, as Restated

2,387,695.05	2,390,288.95	4,777,984.00	
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Net Position - December 31

2,501,576.56	3,773,641.21	6,275,217.77	1,134,959.80
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The accompanying notes are an integral part of these financial statements.

CITY OF KENMARE
Kenmare, North Dakota

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

	Net (Expense) Revenue and Change in Net Position					Component Unit		
	Program Revenues		Primary Government					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Airport Authority
<u>Functions/Programs</u>								
<u>Primary Government:</u>								
<u>Governmental Activities:</u>								
General Government	331,003.70	31,263.83			(299,739.87)		(299,739.87)	
Public Safety	305,851.25	34,121.67	68,921.50		(202,808.08)		(202,808.08)	
Streets and Public Works	288,335.31	8,663.50	218,580.94		(61,090.87)		(61,090.87)	
Urban and Economic Development	233,953.20	35,565.56	190,102.83		(8,284.81)		(8,284.81)	
Culture and Recreation	108,129.61	93,965.00	6,300.00		(7,864.61)		(7,864.61)	
Health and Welfare	75.00				(75.00)		(75.00)	
Other	14,045.24				(14,045.24)		(14,045.24)	
Interest on Long-Term Debt	34,532.32		323,001.59		288,469.27		288,469.27	
Total Governmental Activities	1,315,925.63	203,579.56	806,906.86		(305,439.21)		(305,439.21)	
<u>Business-Type Activities:</u>								
Water	290,891.95	297,213.33				6,321.38	6,321.38	
Sewer	158,408.79	127,336.32		53,675.47		22,603.00	22,603.00	
Garbage and Landfill	187,978.24	191,222.17				3,243.93	3,243.93	
Water and Sewer Imp. District	89,910.74	153,991.64		733,782.16		797,863.06	797,863.06	
Total Business-Type Activities	727,189.72	769,763.46		787,457.63		830,031.37	830,031.37	
Total Primary Government	2,043,115.35	973,343.02	806,906.86	787,457.63	(305,439.21)	830,031.37	524,592.16	
Component Unit:								
Airport Authority	209,741.01	55,009.59	42,338.65					(112,392.77)

General Revenues:

Taxes:

Property taxes; levied for general purposes
Property taxes; levied for special purposes
City sales taxes
Financial institution taxes
Telecommunication taxes
Cigarette taxes
Oil and gas production taxes
Homestead tax credit
Disabled veterans credit
Intergovernmental revenue not restricted
to specific programs
Earnings on investments and other revenue
Transfers

84,021.92	84,021.92			8,928.81
81,744.32	81,744.32			
316,838.01	316,838.01			
57,468.29	57,468.29			
3,584.20	3,584.20			
3,613.05	3,613.05			
4,960.81	4,960.81			
3,631.65	3,631.65			
679.64	679.64			
		107,430.10		
107,430.10		17,885.00		173.63
263,207.58		125,399.50		
(125,399.50)				
801,780.07	143,284.50	945,064.57		9,102.44
496,340.86	973,315.87	1,469,656.73		(103,290.33)
2,147,359.19	1,416,973.08	3,564,332.27		1,179,913.99
2,643,700.05	2,390,288.95	5,033,989.00		1,076,623.66

Total General Revenues and Transfers

Change in Net Position

Net Position - January 1

Net Position - December 31

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Funds					
	General	Sales Tax	Street Improvement District No. 8	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash		14,381.57	55,738.42	305,455.22	375,575.21
Interfund Receivable		127,395.41			127,395.41
<hr/>					
Total Assets	-0-	141,776.98	55,738.42	305,455.22	502,970.62
<hr/>					
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payable		65,131.77		62,263.64	127,395.41
<hr/>					
Fund Balances:					
Restricted for:					
General Government				20,544.26	20,544.26
Public Safety				440.86	440.86
Streets and Public Works			55,738.42		55,738.42
Infrastructure		95,077.83			95,077.83
Health Care		40,260.66			40,260.66
Conservation of Natural Resources				14,207.80	14,207.80
Culture and Recreation		6,438.49		5,347.02	11,785.51
Emergency Services				9,190.26	9,190.26
Other				3,842.36	3,842.36
Debt Service				251,882.66	251,882.66
Unassigned	(65,131.77)			(62,263.64)	(127,395.41)
<hr/>					
Total Fund Balances	(65,131.77)	141,776.98	55,738.42	243,191.58	375,575.21
<hr/>					
Total Liabilities and Fund Balances	-0-	141,776.98	55,738.42	305,455.22	502,970.62
<hr/>					

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Funds					
	General	Sales Tax	Street Improvement District No. 8	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash		367,370.97	142,456.07	475,885.20	985,712.24
Interfund Receivable		71,423.61			71,423.61
<hr/>					
Total Assets	-0-	438,794.58	142,456.07	475,885.20	1,057,135.85
<hr style="border-top: 1px dashed black;"/>					
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payable	1,135.72			70,287.89	71,423.61
<hr/>					
Fund Balances:					
Restricted for:					
General Government				16,583.67	16,583.67
Public Safety				626.89	626.89
Streets and Public Works			108,175.77		108,175.77
Infrastructure	400,049.20				400,049.20
Health Care	27,582.73				27,582.73
Conservation of Natural Resources				7,272.47	7,272.47
Culture and Recreation	11,162.65			4,352.85	15,515.50
Emergency Services				3,269.27	3,269.27
Other				5,462.58	5,462.58
Debt Service			34,280.30	438,317.47	472,597.77
Unassigned	(1,135.72)			(70,287.89)	(71,423.61)
<hr/>					
Total Fund Balances	(1,135.72)	438,794.58	142,456.07	405,597.31	985,712.24
<hr/>					
Total Liabilities and Fund Balances	-0-	438,794.58	142,456.07	475,885.20	1,057,135.85
<hr style="border-top: 1px dashed black;"/>					

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

CITY OF KENMARE
Kenmare, North Dakota

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

Total Fund Balances for Governmental Funds		375,575.21
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	5,583,530.00	
Less Accumulated Depreciation	(1,355,205.00)	
Net Capital Assets	4,228,325.00	4,228,325.00
<p>The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.</p>		
Total Deferred Outflows of Resources	43,183.00	
Total Deferred Inflows of Resources	(46,515.00)	
Net Deferred Outflows/Inflows of Resources	(3,332.00)	(3,332.00)
<p>Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2015 are:</p>		
Loans Payable	(356,446.35)	
Special Assessments Bonds Payable	(1,497,567.75)	
Compensated Absences Payable	(6,690.55)	
Net Pension Liability	(238,287.00)	
Total Liabilities	(2,098,991.65)	(2,098,991.65)
Total Net Position of Governmental Activities	2,501,576.56	2,501,576.56

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

CITY OF KENMARE
Kenmare, North Dakota

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

Total Fund Balances for Governmental Funds		985,712.24
<p>Total net position reported for government activities in the statement of net position is different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of Capital Assets	5,444,251.00	
Less Accumulated Depreciation	(1,166,678.00)	
Net Capital Assets	4,277,573.00	4,277,573.00
<p>Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2014 are:</p>		
Loans Payable	(789,128.40)	
Special Assessments Bonds Payable	(1,810,000.00)	
Compensated Absences Payable	(20,456.79)	
Total Liabilities	(2,619,585.19)	(2,619,585.19)
Total Net Position of Governmental Activities		2,643,700.05

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Funds

	General	Sales Tax	Street Improvement District No. 8	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	99,655.91	504,058.54		98,114.50	701,828.95
Special Assessments	97.23		16,615.22	244,355.64	261,068.09
Licenses, Permits and Fees	77,141.91			23,726.50	100,868.41
Intergovernmental	612,948.22			115,122.84	728,071.06
Charges for Services			1,045.00	5,019.16	6,064.16
Fines and Forfeits				12,275.00	12,275.00
Miscellaneous	26,233.31	911.41	130,044.28	77,179.94	234,368.94
Total Revenues	816,076.58	504,969.95	147,704.50	575,793.58	2,044,544.61
Expenditures:					
Current:					
General Government	199,145.68			65,969.34	265,115.02
Public Safety	187,022.31			68,181.48	255,203.79
Streets and Public Works	498,385.10	176,081.92	19.27	202,383.57	876,869.86
Urban and Economic Development		189,021.91		42,446.89	231,468.80
Culture and Recreation	36,684.89			69,031.95	105,716.84
Other	3,834.65	6,485.15	2,422.03	14,674.84	27,416.67
Capital Outlay		32,810.00	81,600.00	43,825.00	158,235.00
Debt Service:					
Principal		416,650.00	77,432.25	251,032.05	745,114.30
Interest			7,614.49	26,926.87	34,541.36
Total Expenditures	925,072.63	821,048.98	169,088.04	784,471.99	2,699,681.64
Excess (Deficiency) of Revenues Over Expenditures	(108,996.05)	(316,079.03)	(21,383.54)	(208,678.41)	(655,137.03)
Other Financing Sources (Uses):					
Transfers In	45,000.00	65,334.11		202,068.23	312,402.34
Transfers Out		(46,272.68)	(65,334.11)	(155,795.55)	(267,402.34)
Total Other Financing Sources (Uses)	45,000.00	19,061.43	(65,334.11)	46,272.68	45,000.00
Net Change in Fund Balances	(63,996.05)	(297,017.60)	(86,717.65)	(162,405.73)	(610,137.03)
Fund Balance - January 1	(1,135.72)	438,794.58	142,456.07	405,597.31	985,712.24
Fund Balance - December 31	(65,131.77)	141,776.98	55,738.42	243,191.58	375,575.21

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Funds

	General	Sales Tax	Street Improvement District No. 8	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	145,074.41	506,940.84		81,651.59	733,666.84
Special Assessments			64,280.30	258,721.29	323,001.59
Licenses, Permits and Fees	92,032.43			26,196.40	118,228.83
Intergovernmental	118,841.11			139,879.31	258,720.42
Charges for Services	7,000.00			8,663.50	15,663.50
Fines and Forfeits				34,121.67	34,121.67
Miscellaneous	17,671.52	167,845.62	140,029.77	128,716.23	454,263.14
Total Revenues	380,619.47	674,786.46	204,310.07	677,949.99	1,937,665.99
Expenditures:					
Current:					
General Government	217,274.36			85,884.55	303,158.91
Public Safety	180,263.52			112,415.73	292,679.25
Streets and Public Works		3,062.54	21,265.69	100,792.08	125,120.31
Urban and Economic Development		190,102.83		43,850.37	233,953.20
Culture and Recreation	33,529.09			74,600.52	108,129.61
Health and Welfare		75.00			75.00
Other	3,380.77	1,172.51	1,229.04	8,262.92	14,045.24
Capital Outlay		773,096.00	747,805.00	37,896.00	1,558,797.00
Debt Service:					
Principal			30,000.00	267,694.86	297,694.86
Interest				34,532.32	34,532.32
Total Expenditures	434,447.74	967,508.88	800,299.73	765,929.35	2,968,185.70
Excess (Deficiency) of Revenues Over Expenditures	(53,828.27)	(292,722.42)	(595,989.66)	(87,979.36)	(1,030,519.71)
Other Financing Sources (Uses):					
Transfers In			500,000.00	64,260.04	564,260.04
Transfers Out		(564,260.04)		(125,399.50)	(689,659.54)
Proceeds from Bank Loan		773,096.35	290,000.00		1,063,096.35
Total Other Financing Sources (Uses)		208,836.31	790,000.00	(61,139.46)	937,696.85
Net Change in Fund Balances	(53,828.27)	(83,886.11)	194,010.34	(149,118.82)	(92,822.86)
Fund Balance - January 1	52,692.55	522,680.69	(51,554.27)	554,716.13	1,078,535.10
Fund Balance - December 31	(1,135.72)	438,794.58	142,456.07	405,597.31	985,712.24

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

CITY OF KENMARE
Kenmare, North Dakota

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

Net Change in Fund Balances - Total Governmental Funds (610,137.03)

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

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

Current Year Capital Outlay	158,235.00	
Current Year Depreciation Expense	(230,850.00)	(72,615.00)

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

Debt Proceeds	0.00	
Repayment of Debt	745,114.30	745,114.30

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 Decrease in Compensated Absences	13,766.24	
Net Decrease to Pension Expense	14,386.00	28,152.24

In the statement of activities, only the gain on the trade-in of capital assets is reported, whereas in the governmental funds, this transaction has no effect on financial resources. Thus the net effect of transactions involving capital assets (i.e., sales, trade-ins) results in an increase to net position.

23,367.00

Change in Net Position of Governmental Activities	113,881.51

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

CITY OF KENMARE
Kenmare, North Dakota

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

Net Change in Fund Balances - Total Governmental Funds (92,822.86)

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

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

Current Year Capital Outlay	1,558,797.00	
Current Year Depreciation Expense	(183,775.00)	1,375,022.00

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

Debt Proceeds	(1,063,096.35)	
Repayment of Debt	297,694.86	(765,401.49)

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		(20,456.79)

Change in Net Position of Governmental Activities		496,340.86

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Major Enterprise Funds				Total Enterprise Funds
	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	
ASSETS					
Current Assets:					
Cash and Cash Equivalents	196,380.35	33,198.91	206,721.59	103,895.34	540,196.19
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Land		20,000.00			20,000.00
Construction in Progress			2,483,000.00		2,483,000.00
Buildings and Infrastructure	1,027,983.00		1,614,065.00		2,642,048.00
Machinery and Vehicles	8,333.00				8,333.00
Total Noncurrent Assets	1,036,316.00	20,000.00	4,097,065.00		5,153,381.00
Total Assets	1,232,696.35	53,198.91	4,303,786.59	103,895.34	5,693,577.19
LIABILITIES					
Current Liabilities:					
Revenue Bonds Payable	60,000.00		93,700.00		153,700.00
Noncurrent Liabilities:					
Revenue Bonds Payable	960,000.00		806,235.98		1,766,235.98
Total Liabilities	1,020,000.00		899,935.98		1,919,935.98
NET POSITION					
Net Investment in Capital Assets	16,316.00	20,000.00	3,197,129.02		3,233,445.02
Restricted for:					
Debt Service			206,721.59		206,721.59
Water Deposits				6,043.00	6,043.00
Water Maintenance				92,428.87	92,428.87
Unrestricted	196,380.35	33,198.91		5,423.47	235,002.73
Total Net Position	212,696.35	53,198.91	3,403,850.61	103,895.34	3,773,641.21

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Major Enterprise Funds				
	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	194,549.06	13,110.07	237,796.41	126,621.41	572,076.95
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Land		20,000.00			20,000.00
Construction in Progress			745,000.00		745,000.00
Buildings and Infrastructure	964,652.00		1,684,266.00		2,648,918.00
Machinery and Vehicles	325.00			325.00	650.00
Total Noncurrent Assets	964,977.00	20,000.00	2,429,266.00	325.00	3,414,568.00
Total Assets	1,159,526.06	33,110.07	2,667,062.41	126,946.41	3,986,644.95
LIABILITIES					
Current Liabilities:					
Revenue Bonds Payable	63,039.00		91,700.00		154,739.00
Noncurrent Liabilities:					
Revenue Bonds Payable	855,617.00		586,000.00		1,441,617.00
Total Liabilities	918,656.00		677,700.00		1,596,356.00
NET POSITION					
Net Investment in Capital Assets	46,321.00	20,000.00	1,751,566.00	325.00	1,818,212.00
Restricted for:					
Debt Service			237,796.41		237,796.41
Water Deposits				4,540.00	4,540.00
Water Maintenance				78,696.90	78,696.90
Unrestricted	194,549.06	13,110.07		43,384.51	251,043.64
Total Net Position	240,870.06	33,110.07	1,989,362.41	126,946.41	2,390,288.95

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Enterprise Funds

	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:					
Charges for Services:					
Water Sales	226,745.77		102,511.50		329,257.27
Bulk Water Sales	10,135.00				10,135.00
Water Maintenance Fee				13,731.97	13,731.97
Sewer Charges			50,307.05	75,943.90	126,250.95
Garbage Charges		183,856.20			183,856.20
Landfill Permits		13,068.00			13,068.00
Meter Sales	105.00				105.00
Water Deposits				3,318.00	3,318.00
Other Fees	1,230.50				1,230.50
Total Operating Revenues	238,216.27	196,924.20	152,818.55	92,993.87	680,952.89
Operating Expenses:					
Salaries	55,722.55	14,868.34		31,144.21	101,735.10
Health Insurance	8,172.18				8,172.18
Workforce Safety Insurance	876.84				876.84
Retirement	4,640.83				4,640.83
Insurance				4,586.40	4,586.40
NAWS Water	93,817.89				93,817.89
Utilities	4,252.42	612.43		10,748.67	15,613.52
Telephone				696.72	696.72
Maintenance and Supplies	27,014.14	12,749.75	1,528.76	68,668.94	109,961.59
Refunds				1,815.00	1,815.00
Contracted Services		139,254.57			139,254.57
Engineering Fees			28,674.32		28,674.32
Recycling		14,639.27			14,639.27
Depreciation	16,269.00		70,201.00	325.00	86,795.00
Total Operating Expenses	210,765.85	182,124.36	100,404.08	117,984.94	611,279.23
Operating Income (Loss)	27,450.42	14,799.84	52,414.47	(24,991.07)	69,673.66
Non-Operating Revenues (Expenses):					
Energy Impact Grants			1,378,937.84		1,378,937.84
Interest Income			469.84		469.84
Miscellaneous Revenue	13,498.56	5,289.00		1,940.00	20,727.56
Debt Service - Interest Expense	(24,122.69)		(17,333.95)		(41,456.64)
Total Non-Operating Revenues (Expenses)	(10,624.13)	5,289.00	1,362,073.73	1,940.00	1,358,678.60
Income (Loss) Before Transfers	16,826.29	20,088.84	1,414,488.20	(23,051.07)	1,428,352.26
Transfers Out					(45,000.00)
Change in Net Position	(28,173.71)	20,088.84	1,414,488.20	(23,051.07)	1,383,352.26
Net Position - January 1	240,870.06	33,110.07	1,989,362.41	126,946.41	2,390,288.95
Net Position - December 31	212,696.35	53,198.91	3,403,850.61	103,895.34	3,773,641.21

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

CITY OF KENMARE
Kenmare, North Dakota

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

Major Enterprise Funds

	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:					
Charges for Services:					
Water Sales	247,605.43		107,617.50		355,222.93
Bulk Water Sales	30,123.39				30,123.39
Water Maintenance Fee				14,352.51	14,352.51
Sewer Charges			46,374.14	69,559.32	115,933.46
Garbage Charges		179,572.17			179,572.17
Landfill Permits		11,650.00			11,650.00
Meter Sales	2,780.00				2,780.00
Water Deposits				1,585.00	1,585.00
Other Fees	767.00			57,777.00	58,544.00
Total Operating Revenues	281,275.82	191,222.17	153,991.64	143,273.83	769,763.46
Operating Expenses:					
Salaries	46,866.25	17,550.00		21,988.86	86,405.11
Health Insurance	6,360.60				6,360.60
Workforce Safety Insurance	539.02				539.02
Retirement	4,833.28				4,833.28
Insurance				3,300.00	3,300.00
NAWS Water	81,726.86				81,726.86
Utilities	4,662.38	637.72		9,758.55	15,058.65
Telephone				606.70	606.70
Maintenance and Supplies	105,283.88	18,474.12		110,881.93	234,639.93
Refunds				4,121.00	4,121.00
Contracted Services		136,720.32			136,720.32
Recycling		14,596.08			14,596.08
Miscellaneous				11,547.75	11,547.75
Depreciation	13,539.00		70,201.00	325.00	84,065.00
Total Operating Expenses	263,811.27	187,978.24	70,201.00	162,529.79	684,520.30
Operating Income (Loss)	17,464.55	3,243.93	83,790.64	(19,255.96)	85,243.16
Non-Operating Revenues (Expenses):					
Energy Impact Grant			443,782.16		443,782.16
Community Development Block Grant			290,000.00		290,000.00
FEMA Funds				53,675.47	53,675.47
Interest Income			145.85		145.85
Miscellaneous Revenue	13,548.92	3,484.80		705.43	17,739.15
Miscellaneous Expenses			(519.46)		(519.46)
Debt Service - Interest Expense	(22,959.68)		(19,190.28)		(42,149.96)
Total Non-Operating Revenues (Expenses)	(9,410.76)	3,484.80	714,218.27	54,380.90	762,673.21
Income (Loss) Before Transfers	8,053.79	6,728.73	798,008.91	35,124.94	847,916.37
Transfers In	105,399.50		30,000.00	20,000.00	155,399.50
Transfers Out				(30,000.00)	(30,000.00)
Change in Net Position	113,453.29	6,728.73	828,008.91	25,124.94	973,315.87
Net Position - January 1	127,416.77	26,381.34	1,161,353.50	101,821.47	1,416,973.08
Net Position - December 31	240,870.06	33,110.07	1,989,362.41	126,946.41	2,390,288.95

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Major Enterprise Funds				Total Enterprise Funds
	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1	Other Enterprise Funds	
<u>Cash flows from operating activities:</u>					
Receipts from customers	238,216.27	196,924.20	152,818.55	92,993.87	680,952.89
Payments to suppliers	(125,961.29)	(167,256.02)	(30,203.08)	(86,515.73)	(409,936.12)
Payments to employees	(55,722.55)	(14,868.34)		(31,144.21)	(101,735.10)
Payments on behalf of employees	(12,813.01)				(12,813.01)
Net cash provided (used) by operating activities	43,719.42	14,799.84	122,615.47	(24,666.07)	156,468.66
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	13,498.56	5,289.00		1,940.00	20,727.56
Transfers out	(45,000.00)				(45,000.00)
Net cash provided (used) by noncapital financing activities	(31,501.44)	5,289.00		1,940.00	(24,272.44)
<u>Cash flows from capital and related financing activities:</u>					
Energy impact grants			1,378,937.84		1,378,937.84
Drinking Water SRF bonds issued	164,383.00				164,383.00
Proceeds from bank loan			313,935.98		313,935.98
Lagoon project			(1,738,000.00)		(1,738,000.00)
NAWS water project	(77,608.00)				(77,608.00)
Purchase of fixed assets	(10,000.00)				(10,000.00)
Principal payments	(63,039.00)		(91,700.00)		(154,739.00)
Interest payments	(24,122.69)		(17,333.95)		(41,456.64)
Net cash provided (used) by capital and related financing activities	(10,386.69)		(154,160.13)		(164,546.82)
<u>Cash flows from investing activities:</u>					
Interest income			469.84		469.84
Net increase in cash and cash equivalents	1,831.29	20,088.84	(31,074.82)	(22,726.07)	(31,880.76)
Cash and cash equivalents, January 1	194,549.06	13,110.07	237,796.41	126,621.41	572,076.95
Cash and cash equivalents, December 31	196,380.35	33,198.91	206,721.59	103,895.34	540,196.19
=====					
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	27,450.42	14,799.84	52,414.47	(24,991.07)	69,673.66
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	16,269.00		70,201.00	325.00	86,795.00
Net cash provided (used) by operating activities	43,719.42	14,799.84	122,615.47	(24,666.07)	156,468.66
=====					

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

CITY OF KENMARE
Kenmare, North Dakota

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

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water	Garbage & Landfill	Water and Sewer Improvement District 1993-1		
Cash flows from operating activities:					
Receipts from customers	281,275.82	191,222.17	153,991.64	143,273.83	769,763.46
Payments to suppliers	(192,212.14)	(170,428.24)		(140,215.93)	(502,856.31)
Payments to employees	(46,866.25)	(17,550.00)		(21,988.86)	(86,405.11)
Payments on behalf of employees	(11,193.88)				(11,193.88)
Net cash provided (used) by operating activities	31,003.55	3,243.93	153,991.64	(18,930.96)	169,308.16
Cash flows from noncapital financing activities:					
Miscellaneous receipts	13,548.92	3,484.80		705.43	17,739.15
Miscellaneous disbursements			(519.46)		(519.46)
Transfers in	105,399.50		30,000.00	20,000.00	155,399.50
Transfers out				(30,000.00)	(30,000.00)
Net cash provided (used) by noncapital financing activities	118,948.42	3,484.80	29,480.54	(9,294.57)	142,619.19
Cash flows from capital and related financing activities:					
Energy impact grant			443,782.16		443,782.16
Community development block grant			290,000.00		290,000.00
FEMA funds				53,675.47	53,675.47
Lagoon project			(745,000.00)		(745,000.00)
Principal payments	(70,000.00)		(90,700.00)		(160,700.00)
Interest payments	(22,959.68)		(19,190.28)		(42,149.96)
Net cash provided (used) by capital and related financing activities	(92,959.68)		(121,108.12)	53,675.47	(160,392.33)
Cash flows from investing activities:					
Interest income			145.85		145.85
Net increase in cash and cash equivalents	56,992.29	6,728.73	62,509.91	25,449.94	151,680.87
Cash and cash equivalents, January 1	137,556.77	6,381.34	175,286.50	101,171.47	420,396.08
Cash and cash equivalents, December 31	194,549.06	13,110.07	237,796.41	126,621.41	572,076.95
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	17,464.55	3,243.93	83,790.64	(19,255.96)	85,243.16
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	13,539.00		70,201.00	325.00	84,065.00
Net cash provided (used) by operating activities	31,003.55	3,243.93	153,991.64	(18,930.96)	169,308.16

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

CITY OF KENMARE
Kenmare, North Dakota

Notes to the Financial Statements
December 31, 2015 and 2014

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, the component unit discussed below is included within the city's reporting entity because of the significance of its operational or financial relationship with the city.

Discretely Presented Component Unit: The component unit's column in the basic financial statements include the financial data of the city's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the city.

Kenmare Airport Authority: The Kenmare airport authority's governing board is appointed by the city's governing board. The city's governing board has the authority to disapprove, amend, or approve the airport authority budget. The airport authority has the authority to issue its own debt.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the city's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the city's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The city reports the following major governmental funds:

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

Sales Tax. This fund accounts for the city's sales tax collections, which are used for economic development, infrastructure improvements and community health-care needs.

Street Improvement District No. 8. The city used this fund to account for the proceeds of loans and other city funds that were used to finance a street improvement project and to accumulate resources for the repayment of principal and interest.

The city reports the following major enterprise funds:

Water. This fund accounts for the activities of the city's water distribution system. During 2015, the city used this fund to account for Drinking Water SRF Bonds used to complete the construction of the city's water tower.

Garbage and Landfill. This fund accounts for the activities of the city's garbage collection system and landfill.

Water and Sewer Improvement District 1993-1. This fund accounts for the accumulation of funds to service the principal and interest payments of the city's revenue bonds. The city collects water and sewer charges to repay this debt. During 2014 and 2015, the city used this fund to account for resources used for a lagoon project.

The city reports the following fund type:

Agency Fund. This fund accounts for assets held by the city in a custodial capacity as an agent on behalf of others. The city's agency fund is used to account for various deposits of other governments.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-like and fiduciary fund activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

If the city utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash and Cash Equivalents

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

E. Capital Assets

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

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

Buildings and Infrastructure	25 to 75 years
Machinery and Vehicles	5 to 20 years

F. Compensated Absences

Vested or accumulated annual leave is reported in the government-wide statement of net position. Compensation for unused annual leave will be granted to all full-time employees upon termination of employment with the city. The city's personnel policy allows employees to carry forward unused annual leave not to exceed 40 hours at the employee's current pay rate.

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

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

H. Pension

For purposes of measuring 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 North Dakota Public Employees Retirement System (NDPERS); 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. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

J. Interfund Transactions

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

All other interfund transactions, except reimbursements, are reported as transfers.

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

K. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

Authorized collateral includes bills, notes or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investments companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any county, city, township, school district, park district or any other political subdivision of the State of North Dakota, whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or other securities approved by the banking board.

At December 31, 2015 the city's carrying amount of deposits was \$915,771 and the bank balance was \$958,466. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$708,466 was collateralized with securities held by the pledging financial institution's agent in the government's name.

At December 31, 2014 the city's carrying amount of deposits was \$1,557,789 and the bank balance was \$1,750,959. Of the bank balance, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$1,500,959 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

Note 4 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the years ended December 31, 2015 and 2014 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
<u>December 31, 2015</u>		
Sales Tax	127,395.41	
General Fund		65,131.77
Highway Distribution		44,980.78
Recreation		226.01
Memorial Hall		15,668.74
Police Department		1,267.85
Job Development		120.26
<u>December 31, 2014</u>		
Sales Tax	71,423.61	
General Fund		1,135.72
Highway Distribution		44,314.69
Memorial Hall		13,540.30
Advertising		968.01
Police Department		8,034.90
Job Development		3,429.99

Note 5 CAPITAL ASSETS

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

	<u>2015</u>			
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Const. in Progress	747,805	81,600	829,405	
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	4,259,266	829,405		5,088,671
Machinery and Vehicles	437,180	233,635	175,956	494,859
Total	4,696,446	1,063,040	175,956	5,583,530
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	981,618	186,746		1,168,364
Machinery and Vehicles	185,060	44,104	42,323	186,841
Total	1,166,678	230,850	42,323	1,355,205
Total capital assets being depreciated, net	3,529,768	832,190	133,633	4,228,325
Governmental Activities Capital Assets, Net	4,277,573	913,790	963,038	4,228,325

	<u>2014</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Const. in Progress		747,805		747,805
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,486,170	773,096		4,259,266
Machinery and Vehicles	404,284	37,896		437,180
Total	<u>3,890,454</u>	<u>810,992</u>		<u>4,696,446</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	828,048	153,570		981,618
Machinery and Vehicles	159,855	30,205		185,060
Total	<u>987,903</u>	<u>183,775</u>		<u>1,166,678</u>
Total capital assets being depreciated, net	<u>2,902,551</u>	<u>627,217</u>		<u>3,529,768</u>
Governmental Activities Capital Assets, Net	<u>2,902,551</u>	<u>1,375,022</u>	<u>-0-</u>	<u>4,277,573</u>

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	20,000			20,000
Const. in Progress	745,000	1,738,000		2,483,000
Total	<u>765,000</u>	<u>1,738,000</u>		<u>2,503,000</u>
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,799,110	77,608		3,876,718
Machinery and Vehicles	6,500	10,000		16,500
Total	<u>3,805,610</u>	<u>87,608</u>		<u>3,893,218</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,150,192	84,478		1,234,670
Machinery and Vehicles	5,850	2,317		8,167
Total	<u>1,156,042</u>	<u>86,795</u>		<u>1,242,837</u>
Total capital assets being depreciated, net	<u>2,649,568</u>	<u>813</u>		<u>2,650,381</u>
Business-type Activities Capital Assets, Net	<u>3,414,568</u>	<u>1,738,813</u>	<u>-0-</u>	<u>5,153,381</u>

	<u>2014</u>			
	Balance January 1	Increases	Decreases	Balance December 31
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	20,000			20,000
Const. in Progress		745,000		745,000
Total	20,000	745,000		765,000
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	3,799,110			3,799,110
Machinery and Vehicles	6,500			6,500
Total	3,805,610			3,805,610
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,066,777	83,415		1,150,192
Machinery and Vehicles	5,200	650		5,850
Total	1,071,977	84,065		1,156,042
Total capital assets being depreciated, net	2,733,633	(84,065)		2,649,568
Business-type Activities Capital Assets, Net	2,753,633	660,935	-0-	3,414,568

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

	<u>2015</u>	<u>2014</u>
<u>Governmental Activities:</u>		
General Government	7,388	7,388
Public Safety	13,172	13,172
Streets and Public Works	210,290	163,215
Total	230,850	183,775
<u>Business-type Activities:</u>		
Water	16,269	13,539
Sewer	325	325
W&S Improv. Dist. 1993-1	70,201	70,201
Total	86,795	84,065

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

Airport Authority

	<u>2015</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Discretely Presented:				
Component Unit:				
<i>Capital assets not being depreciated:</i>				
Const. in Progress	1,068,529	106,663	1,175,192	
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure		1,175,192		1,175,192
Machinery and Vehicles		15,200		15,200
Total		<u>1,190,392</u>		<u>1,190,392</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure		78,346		78,346
Machinery and Vehicles		1,900		1,900
Total		<u>80,246</u>		<u>80,246</u>
Total capital assets being depreciated, net		<u>1,110,146</u>		<u>1,110,146</u>
Discretely Presented Component Unit, Net	<u>1,068,529</u>	<u>1,216,809</u>	<u>1,175,192</u>	<u>1,110,146</u>

	<u>2014</u>			
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Discretely Presented:				
Component Unit:				
<i>Capital assets not being depreciated:</i>				
Const. in Progress	1,068,529	-0-	-0-	1,068,529

Depreciation expense was charged to functions/programs of the component unit as follows:

	<u>2015</u>	<u>2014</u>
Authority Airport	<u>80,246</u>	<u>-0-</u>

Note 6 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the years ended December 31, 2015 and 2014, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities

	<u>2015</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loans Payable	789,128		432,682	356,446	89,112
Special Assmt. Bonds	1,810,000		312,432	1,497,568	117,827
Total	<u>2,599,128</u>	<u>-0-</u>	<u>745,114</u>	<u>1,854,014</u>	<u>206,939</u>

	<u>2014</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loans Payable	53,727	773,096	37,695	789,128	432,682
Special Assmt. Bonds	1,780,000	290,000	260,000	1,810,000	252,432
Total	<u>1,833,727</u>	<u>1,063,096</u>	<u>297,695</u>	<u>2,599,128</u>	<u>685,114</u>

Business-type Activities

	<u>2015</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds	1,596,356	478,319	154,739	1,919,936	153,700

	<u>2014</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Revenue Bonds	1,757,056	-0-	160,700	1,596,356	154,739

Airport Authority

	<u>2015</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loan Payable	33,000	-0-	28,000	5,000	5,000

	<u>2014</u>			<u>Balance December 31</u>	<u>Due Within One Year</u>
	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>		
Loan Payable	-0-	33,000	-0-	33,000	33,000

Outstanding debt at December 31, 2015 consists of the following:

Governmental Activities

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2015, is as follows:

Loans Payable. The city has entered into the following loan agreement to provide funds for the city's share of the 6th Street Improvement project. The loan payable at December 31, 2015 is as follows:

\$773,096.35 loan through Ward County due in annual installment of \$89,111.59 through January 1, 2019; interest is at 0%.	356,446.35 =====
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The annual requirements to amortize the outstanding loan payable is as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>
2016	89,111.59
2017	89,111.59
2018	89,111.59
2019	89,111.58
Total	356,446.35 =====

Special Assessment Debt. The city has issued special assessment bonds to provide funds for the construction and/or improvement of streets. Special assessment bonds outstanding at December 31, 2015, are as follows:

\$1,600,000.00 Refunding Improvement Bonds, Series 2012, due in annual installments of \$95,000.00 to \$125,000.00 through May 1, 2027; interest is at .75% to 2.4%.	1,315,000.00
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\$200,000.00 State Bank of Kenmare Loan, (Street Improvement District No. 8) due in annual installments of \$23,448.79 through September 22, 2024; interest is at 3%.	182,567.75
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Total Special Assessment Bonds Payable	1,497,567.75 =====
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The annual requirements to amortize the outstanding special assessment bond debt are as follows:

Year Ending <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	117,827.14	28,306.65
2017	118,438.05	26,695.74
2018	118,998.86	25,134.93
2019	124,576.73	23,269.56
2020	125,172.17	21,099.12
2021-2025	647,554.80	66,778.95
2026-2027	245,000.00	5,940.00
Total	<u>1,497,567.75</u>	<u>197,224.95</u>
	=====	=====

Business-type Activities (Proprietary Funds):

Revenue Bonds. The city has issued bonds whereby the city pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2015, are as follows:

<p>\$598,300.00 Bank of North Dakota Loan (Water and Sewer Improvement District 1993-1) due in annual installments of \$20,700.00 through September 20, 2024 with a final payment of \$18,700.00 due on September 25, 2025; interest is at 3%.</p>	205,000.00
<p>\$728,000.00 Refunding Improvement Bonds, Series 2010A due in annual installments of \$70,000.00 to \$80,000.00 through October 1, 2020; interest is at 1.5% to 2.5%.</p>	381,000.00
<p>\$403,579 Water Revenue Bonds of 2010 due in annual installments of \$10,000.00 to \$25,000.00 through September 1, 2029; interest is at .5%.</p>	295,000.00
<p>\$892,039 Water Revenue Bonds of 2011 due in annual installments of \$40,000.00 to \$60,000.00 through September 1, 2030; interest is at 2.5%.</p>	725,000.00
<p>\$400,000 State Bank of Kenmare Loan (Lagoon 2015) due in full on June 30, 2017; interest is at 3%.</p>	313,935.98
<p>Total Revenue Bonds Payable</p>	<u>1,919,935.98</u> =====

The annual requirements to amortize the outstanding revenue bonds payable are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2016	153,700.00	35,275.00
2017	468,635.98	47,425.75
2018	156,700.00	28,158.00
2019	163,700.00	24,537.00
2020	165,700.00	20,741.00
2021-2025	451,500.00	65,615.00
2026-2030	360,000.00	21,450.00
Total	<u>1,919,935.98</u>	<u>243,201.75</u>

Airport Authority

General Obligation Debt. General obligation debt is a direct obligation and pledges the full faith and credit of the government. General obligation debt outstanding at December 31, 2015, is as follows:

Loan Payable. The airport has entered into the following loan agreement to provide funds for an airport improvement project. The loan payable at December 31, 2015 is as follows:

\$50,000.00 State Bank of Kenmare Loan, payments to be made as funds become available or as required by the bank; payments include interest of 2%.	5,000.00 =====
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Note 7 TRANSFERS

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
<u>December 31, 2015</u>		
General Fund	45,000.00	
Water		45,000.00
Highway Distribution	16,272.68	
Recreation	30,000.00	
Sales Tax		46,272.68
To subsidize expenditures.		
Highway Distribution	155,795.55	
Street Improvement Dist. #7		155,795.55
To close funds.		
Sales Tax	65,334.11	
Street Improvement Dist. #8		65,334.11
To reimburse prior years expenditures.		

December 31, 2014

Highway Distribution	16,260.04	
Recreation	43,000.00	
Police Department	5,000.00	
Street Improvement Dist. #8	500,000.00	
Sales Tax		564,260.04
Sewer	20,000.00	
Emergency		20,000.00
W&S Improv. District 1993-1	30,000.00	
Sewer		30,000.00
To subsidize expenditures.		
Water	105,399.50	
Street Improvement Dist. #7		105,399.50
To reimburse prior years expenditures.		

Note 8 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31:

	<u>2015</u>	<u>2014</u>
General Fund	(65,131.77)	(1,135.72)
<u>Special Revenue Funds</u>		
Highway Distribution	(44,980.78)	(44,314.69)
Recreation	(226.01)	
Memorial Hall	(15,668.74)	(13,540.30)
Advertising		(968.01)
Police Department	(1,267.85)	(8,034.90)
Job Development	(120.26)	(3,429.99)

The city plans to eliminate these deficits with future revenue collections and/or transfers from other funds.

Note 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$315,317 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$1,373,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has worker's compensation with the Department of Workforce Safety and Insurance; and purchases commercial insurance for employee health and accident insurance.

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

Note 10 PENSION PLAN

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 NDPERS plan is financed by investment income and contributions.

Responsibility for administration of the NDPERS benefits program 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 active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

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

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

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.

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

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

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.

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

At December 31, 2015, the City of Kenmare reported a liability of \$238,287 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability 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 Main System employers. At June 30, 2014 the city's proportion was .037542 percent.

For the year ended December 31, 2015 the city recognized pension expense of \$23,577. At December 31, 2015 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources -----	Deferred Inflows of Resources -----
Differences between expected and actual experience	7,726	
Net difference between projected and actual earnings on pension plan investments		46,515
City contributions subsequent to the measurement date (see below)	35,457	
Total	<u>43,183</u> =====	<u>46,515</u> =====

\$35,457 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015.

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

Year ended June 30: -----	
2016	(9,985)
2017	(9,985)
2018	(9,985)
2019	(9,985)
2020	1,151
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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

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

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. 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, 2014, 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, 2014. 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, 2014.

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, 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
	-----	-----	-----
The city's proportionate share of the net pension liability	367,509	238,287	130,240

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

Note 1.1 PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to the Governmental Activities. This adjustment was made to account for the city's net pension liability less its deferred outflows of resources at December 31, 2014.

CITY OF KENMARE
Kenmare, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	117,446.52	117,446.52	99,655.91	(17,790.61)
Special Assessments			97.23	97.23
Licenses, Permits and Fees	90,000.00	90,000.00	77,141.91	(12,858.09)
Intergovernmental	147,485.00	147,485.00	612,948.22	465,463.22
Charges for Services	800.00	800.00		(800.00)
Miscellaneous	4,500.00	4,500.00	26,233.31	21,733.31
Total Revenues	360,231.52	360,231.52	816,076.58	455,845.06
Expenditures:				
Current:				
General Government	212,580.00	212,580.00	199,145.68	13,434.32
Public Safety	184,725.00	184,725.00	187,022.31	(2,297.31)
Street and Public Works			498,385.10	(498,385.10)
Culture and Recreation	28,750.00	28,750.00	36,684.89	(7,934.89)
Other	10,000.00	10,000.00	3,834.65	6,165.35
Total Expenditures	436,055.00	436,055.00	925,072.63	(489,017.63)
Excess (Deficiency) of Revenues Over Expenditures	(75,823.48)	(75,823.48)	(108,996.05)	(33,172.57)
Other Financing Sources:				
Transfers In	50,000.00	50,000.00	45,000.00	(5,000.00)
Net Change in Fund Balances	(25,823.48)	(25,823.48)	(63,996.05)	(38,172.57)
Fund Balance - January 1	(1,135.72)	(1,135.72)	(1,135.72)	
Fund Balance - December 31	(26,959.20)	(26,959.20)	(65,131.77)	(38,172.57)

CITY OF KENMARE
Kenmare, North Dakota

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	87,706.50	87,706.50	145,074.41	57,367.91
Licenses, Permits and Fees	109,800.00	109,800.00	92,032.43	(17,767.57)
Intergovernmental	159,000.00	159,000.00	118,841.11	(40,158.89)
Charges for Services	800.00	800.00	7,000.00	6,200.00
Miscellaneous	4,500.00	4,500.00	17,671.52	13,171.52
Total Revenues	361,806.50	361,806.50	380,619.47	18,812.97
Expenditures:				
Current:				
General Government	189,520.00	189,520.00	217,274.36	(27,754.36)
Public Safety	151,600.00	151,600.00	180,263.52	(28,663.52)
Culture and Recreation	28,750.00	28,750.00	33,529.09	(4,779.09)
Other	10,000.00	10,000.00	3,380.77	6,619.23
Total Expenditures	379,870.00	379,870.00	434,447.74	(54,577.74)
Net Change in Fund Balances	(18,063.50)	(18,063.50)	(53,828.27)	(35,764.77)
Fund Balance - January 1	52,692.55	52,692.55	52,692.55	
Fund Balance - December 31	34,629.05	34,629.05	(1,135.72)	(35,764.77)

CITY OF KENMARE
Kenmare, North Dakota

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

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

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

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds for the years ending December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
General Fund	489,017.63	54,577.74
<u>Special Revenue Funds</u>		
Municipal Highway	135,871.20	
* Sales Tax	821,048.98	967,508.88
Social Security	207.24	
Library		669.96
Recreation	23,202.40	28,980.56
Cemetery	750.96	22.92
Memorial Hall		25,163.84
Advertising		523.07
Fire Department		3,720.64
Police Department		120,633.23
Job Development Authority		850.37
<u>Debt Service Funds</u>		
Street Imp. District No. 6		391.25
Street Imp. District No. 7	17,593.21	16,023.03

* A budget was not prepared for this fund for the years ending December 31, 2015 and 2014.

No remedial action is anticipated or required by the city regarding these excess expenditures.

CITY OF KENMARE
Kenmare, North Dakota

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

	Balance 1-1-15	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-15
Major Governmental Funds						
General Fund	(1,135.72)	816,076.58	45,000.00		925,072.63	(65,131.77)
Sales Tax	438,794.58	504,969.95	65,334.11	46,272.68	821,048.98	141,776.98
Street Improvement District No. 8	142,456.07	147,704.50		65,334.11	169,088.04	55,738.42
Total Major Governmental Funds	580,114.93	1,468,751.03	110,334.11	111,606.79	1,915,209.65	132,383.63
Non-Major Governmental Funds						
Highway Distribution	(44,314.69)	89,746.92	172,068.23		262,481.24	(44,980.78)
Gaming Fund	421.36					421.36
Social Security	6,929.32	33,781.29			31,707.24	9,003.37
Library	1,022.52	5,204.05			879.55	5,347.02
Emergency	3,269.27	6,242.91			321.92	9,190.26
City Forestry	7,272.47	6,935.33				14,207.80
Recreation	3,330.33	34,596.06	30,000.00		68,152.40	(226.01)
Planning Commission	9,654.35	8,585.55			8,084.44	10,155.46
Cemetery	5,041.22	7,130.74			8,750.96	3,421.00
Memorial Hall	(13,540.30)	22,786.15			24,914.59	(15,668.74)
Advertising	(968.01)	3,616.51			1,263.07	1,385.43
Fire Department	626.89	12,867.25			13,053.28	440.86
Police Department	(8,034.90)	61,895.25			55,128.20	(1,267.85)
Job Development	(3,429.99)	45,756.62			42,446.89	(120.26)
Street Improvement District No. 6	200,523.73	97,966.82		155,795.55	142,695.00	
Street Improvement District No. 7	237,793.74	138,682.13			124,593.21	251,882.66
Total Non-Major Governmental Funds	405,597.31	575,793.58	202,068.23	155,795.55	784,471.99	243,191.58
Total Governmental Funds	985,712.24	2,044,544.61	312,402.34	267,402.34	2,699,681.64	375,575.21
Major Enterprise Funds						
Water	194,549.06	416,097.83		45,000.00	369,266.54	196,380.35
Garbage and Landfill	13,110.07	202,213.20			182,124.36	33,198.91
W&S Improvement District 1993-1	237,796.41	1,846,162.21			1,877,237.03	206,721.59
Total Major Enterprise Funds	445,455.54	2,464,473.24		45,000.00	2,428,627.93	436,300.85
Non-Major Enterprise Funds						
Sewer	43,384.51	77,883.90			115,844.94	5,423.47
Water Deposit	4,540.00	3,318.00			1,815.00	6,043.00
Water Maintenance Fee	78,696.90	13,731.97				92,428.87
Total Non-Major Enterprise Funds	126,621.41	94,933.87			117,659.94	103,895.34
Total Enterprise Funds	572,076.95	2,559,407.11		45,000.00	2,546,287.87	540,196.19
Total Primary Government	1,557,789.19	4,603,951.72	312,402.34	312,402.34	5,245,969.51	915,771.40
Discretely Presented						
Component Unit						
Airport Authority	41,094.66	256,415.05			267,695.91	29,813.80
Total Reporting Entity	1,598,883.85	4,860,366.77	312,402.34	312,402.34	5,513,665.42	945,585.20

CITY OF KENMARE
Kenmare, North Dakota

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

	Balance 1-1-14	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-14
Major Governmental Funds						
General Fund	52,692.55	380,619.47			434,447.74	(1,135.72)
Sales Tax	522,680.69	1,447,882.81		564,260.04	967,508.88	438,794.58
Street Improvement District No. 8	(51,554.27)	494,310.07	500,000.00		800,299.73	142,456.07
Total Major Governmental Funds	523,818.97	2,322,812.35	500,000.00	564,260.04	2,202,256.35	580,114.93
Non-Major Governmental Funds						
Highway Distribution	(34,741.75)	87,281.69	16,260.04		113,114.67	(44,314.69)
Gaming Fund	419.36	252.00			250.00	421.36
Social Security	2,868.51	31,828.26			27,767.45	6,929.32
Library	4,049.42	1,643.06			4,669.96	1,022.52
Emergency	22,381.65	887.62		20,000.00		3,269.27
City Forestry	(2,126.47)	9,848.94			450.00	7,272.47
Recreation	1,380.15	28,880.74	43,000.00		69,930.56	3,330.33
Planning Commission	4,242.15	13,842.39			8,430.19	9,654.35
Cemetery	4,887.82	7,176.32			7,022.92	5,041.22
Memorial Hall	(1,590.24)	35,213.78			47,163.84	(13,540.30)
Advertising	(553.66)	2,108.72			2,523.07	(968.01)
Fire Department	(4,009.16)	37,556.69			32,920.64	626.89
Police Department	10,106.93	117,191.40	5,000.00		140,333.23	(8,034.90)
Job Development	(4,301.02)	44,721.40			43,850.37	(3,429.99)
Street Improvement District No. 6	245,968.52	98,171.46			143,616.25	200,523.73
Street Improvement District No. 7	305,733.92	161,345.52		105,399.50	123,886.20	237,793.74
Total Non-Major Governmental Funds	554,716.13	677,949.99	64,260.04	125,399.50	765,929.35	405,597.31
Total Governmental Funds	1,078,535.10	3,000,762.34	564,260.04	689,659.54	2,968,185.70	985,712.24
Major Enterprise Funds						
Water	137,556.77	294,824.74	105,399.50		343,231.95	194,549.06
Garbage and Landfill	6,381.34	194,706.97			187,978.24	13,110.07
W&S Improvement District 1993-1	175,286.50	887,919.65	30,000.00		855,409.74	237,796.41
Total Major Enterprise Funds	319,224.61	1,377,451.36	135,399.50		1,386,619.93	445,455.54
Non-Major Enterprise Funds						
Sewer	29,751.08	181,717.22	20,000.00	30,000.00	158,083.79	43,384.51
Water Deposit	7,076.00	1,585.00			4,121.00	4,540.00
Water Maintenance Fee	64,344.39	14,352.51				78,696.90
Total Non-Major Enterprise Funds	101,171.47	197,654.73	20,000.00	30,000.00	162,204.79	126,621.41
Total Enterprise Funds	420,396.08	1,575,106.09	155,399.50	30,000.00	1,548,824.72	572,076.95
Agency Fund						
Kenmare Grant Committee	403.21				403.21	
Total Primary Government	1,499,334.39	4,575,868.43	719,659.54	719,659.54	4,517,413.63	1,557,789.19
Discretely Presented						
Component Unit						
Airport Authority	111,384.99	139,450.68			209,741.01	41,094.66
Total Reporting Entity	1,610,719.38	4,715,319.11	719,659.54	719,659.54	4,727,154.64	1,598,883.85

CITY OF KENMARE
Kenmare, North Dakota

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015 -----
City's proportion of the net pension liability	0.037542%
City's proportionate share of the net pension liability	238,287
City's covered-employee payroll	295,599
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	80.61%
Plan fiduciary net position as a percentage of the total pension liability	77.7%

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2015 -----
Statutorily required contribution	19,596
Contributions in relation to the statutorily required contribution	(19,596)
Contribution deficiency (excess)	0
City's covered-employee payroll	295,599
Contributions as a percentage of covered-employee payroll	6.63%

* Complete data for this schedule is not available prior to 2015.

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Specializing in Governmental Auditing

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Ken Mehrer, CPA

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Bismarck, ND 58501

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Kenmare
Kenmare, 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kenmare, Kenmare, North Dakota, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated September 16, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items II-1 and II-2, that we consider to be significant deficiencies.

Compliance and Other Matters

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

City's Response to Findings

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

Purpose of this Report

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

September 16, 2016

CITY OF KENMARE
Kenmare, North Dakota

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

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

Governmental Activities	Unmodified-Modified Cash Basis
Business-Type Activities	Unmodified-Modified Cash Basis
Discretely Presented Component Unit	Unmodified-Modified Cash Basis
Major Governmental Funds	Unmodified-Modified Cash Basis
Major Business-Type Funds	Unmodified-Modified Cash Basis
Aggregate Remaining Fund Information	Unmodified-Modified Cash Basis

Internal control over financial reporting:

* Material weakness(es) identified? Yes X No

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

Noncompliance Material to financial
statements noted? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

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

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

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

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

Client Response: No response is considered necessary.

2. Financial Statement Preparation

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

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

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

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

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

Rath & Mehrer

Certified Public Accountants

Specializing in Governmental Auditing

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Ken Mehrer, CPA

425 North Fifth Street
Bismarck, ND 58501

Governing Board
City of Kenmare
Kenmare, North Dakota

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

* * * * *

BUDGETS

Budgets were not prepared for all special revenue funds of the city. NDCC section 40-40-05 requires the preparation of a separate schedule for each special revenue fund, including the sales tax fund. We recommend that the city comply with this section and prepare a separate schedule "C" for each special revenue fund, when preparing future annual budgets.

* * * * *

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

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

Rath and Mehrer

Rath and Mehrer, P.C.

September 16, 2016