

**FINANCIAL STATEMENTS**

**CITY OF LAKOTA  
LAKOTA, NORTH DAKOTA**

*For the Year Ended*  
**DECEMBER 31, 2015**

Prepared By

**MORTENSON & RYGH**  
*Certified Public Accountants*  
**PO Box 287**  
**Park River, North Dakota 58270**

44 - 3 037

**CITY OF LAKOTA, NORTH DAKOTA**  
**Table of Contents**  
December 31, 2015

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City Officials .....	1
INDEPENDENT AUDITOR'S REPORT .....	2
BASIC FINANCIAL STATEMENTS .....	5
Statement of Net Position – Modified Cash Basis .....	6
Statement of Activities – Modified Cash Basis .....	7
Balance Sheet – Modified Cash Basis Governmental Funds .....	8
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position Modified Cash Basis .....	9
Statement of Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis Governmental Funds .....	10
Reconciliation of Governmental Funds Statement of Receipts, Disbursements and Changes in Fund Balance to Statement of Activities – Modified Cash Basis .....	11
Statement of Net Position - Modified Cash Basis Enterprise Funds .....	12
Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis Enterprise Funds ....	13
Statement of Cash Flows – Modified Cash Basis Proprietary Funds .....	14
Notes to the Financial Statements .....	15
REQUIRED SUPPLEMENTARY INFORMATION .....	33
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual - General Fund – Modified Cash Basis .....	34
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Community Building Fund – Modified Cash Basis .....	35
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Special Street Fund – Modified Cash Basis .....	36
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Sales & Lodging Tax Funds – Modified Cash Basis .....	37
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – City Share of Specials – Modified Cash Basis .....	38
Schedule of Employer’s Share of Net Pension Liability ND Public Employees Retirement System .....	39
Schedule of Employer Contributions ND Public Employees Retirement System .....	40
Notes to the Required Supplementary Information .....	41
SUPPLEMENTARY INFORMATION .....	42
Schedule of Fund Activity – Modified Cash Basis .....	43
INDEPENDENT AUDITOR’S 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 .....	44
Schedule of Findings and Responses .....	46

**CITY OF LAKOTA, NORTH DAKOTA**  
**City Officials**  
December 31, 2015

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Dennis Mattern	Council Member
Robin Ouradnik	Council Member
Rich Riely	Council Member
Christian Skogen	Council Member
Jim Vasichek	Council Member
Norris Severtson	Council Member

Jeff Russo	Mayor
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Amie Vasichek	Auditor
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Accounting For Success

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lakota, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lakota, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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## **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, each major fund, and the aggregate remaining fund information of the City of Lakota, North Dakota, as of December 31, 2015, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

## **Basis of Accounting**

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

## **Other Matters**

### *Required Supplementary Information*

Management has not presented the "Managements Discussion and Analysis" that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of City's share of net pension liability and contributions on pages 32 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lakota, North Dakota's financial statements as a whole. The schedule of fund activity – modified cash basis is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Mortenson & Rygh*

Mortenson & Rygh  
Certified Public Accountants  
Park River, North Dakota

August 3, 2016

**BASIC FINANCIAL STATEMENTS**

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Net Position – Modified Cash Basis**  
December 31, 2015

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
<b>CURRENT ASSETS</b>			
Cash & Cash Equivalents	\$ 605,637	\$ 404,771	\$ 1,010,408
Certificates of Deposit	45,535	-	45,535
Materials Inventory	-	25,747	25,747
<b>Total Current Assets</b>	<b>651,172</b>	<b>430,517</b>	<b>1,081,690</b>
<b>CAPITAL ASSETS</b>			
Capital Assets net of Accumulated Depreciation	2,988,131	3,982,857	6,970,988
<b>Total Capital Assets</b>	<b>2,988,131</b>	<b>3,982,857</b>	<b>6,970,988</b>
<b>OTHER ASSETS</b>			
Certificate of Deposits reserved for debt service	-	377,550	377,550
Internal Balances	(295,936)	295,936	-
<b>Total Other Assets</b>	<b>(295,936)</b>	<b>673,486</b>	<b>377,550</b>
<b>Total Assets</b>	<b>\$ 3,343,367</b>	<b>\$ 5,086,861</b>	<b>\$ 8,430,228</b>
<b>LIABILITIES AND NET POSITION:</b>			
<b>CURRENT LIABILITIES</b>			
Customer Deposits	\$ 4,175	\$ 24,183	\$ 28,358
Current Maturity on Long Term Debt	15,000	252,943	267,943
<b>Total Current Liabilities</b>	<b>19,175</b>	<b>277,126</b>	<b>296,301</b>
<b>NON CURRENT LIABILITIES</b>			
Bonds Payable	45,000	1,853,438	1,898,438
Notes Payable	-	109,719	109,719
Less: Current Maturities on Long Term Debt	(15,000)	(252,943)	(267,943)
<b>Total Non Current Liabilities</b>	<b>30,000</b>	<b>1,710,214</b>	<b>1,740,214</b>
<b>Total Liabilities</b>	<b>49,175</b>	<b>1,987,340</b>	<b>2,036,515</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,943,131	2,019,700	4,962,831
Restricted For:			
Capital Projects	56,685	-	56,685
Debt Service	(0)	446,705	446,705
Economic Development	255,358	-	255,358
Infrastructure	132,015	-	132,015
Equipment Replacement	-	27,938	27,938
Other	119,779	-	119,779
Unrestricted	(212,777)	605,178	392,401
<b>Total Net Position</b>	<b>3,294,192</b>	<b>3,099,520</b>	<b>6,393,712</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 3,343,367</b>	<b>\$ 5,086,861</b>	<b>\$ 8,430,228</b>

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



**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Activities – Modified Cash Basis**  
For the Year Ended December 31, 2015

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Change in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities		Total
<b>Government Activities:</b>								
General Government	\$ 163,821	\$ -	\$ 76,534	\$ -	\$ (87,286)	\$ -	\$ (87,286)	
Public Safety	30,190	-	-	-	(30,190)	-	(30,190)	
Public Service	493,118	-	60,256	136,989	(295,874)	-	(295,874)	
Parks, Recreation & Cemetery	38,996	-	-	-	(38,996)	-	(38,996)	
Interest Expense	3,369	-	-	-	(3,369)	-	(3,369)	
<b>Total Government Activities</b>	<b>729,493</b>	<b>-</b>	<b>136,790</b>	<b>136,989</b>	<b>(455,715)</b>	<b>-</b>	<b>(455,715)</b>	
<b>Business Type Activities:</b>								
Utility Systems	1,345,676	1,662,008	2,845	-	-	319,177	319,177	
Other	84,749	54,508	-	-	-	(30,241)	(30,241)	
Interest Expense	58,879	-	-	-	-	(58,879)	(58,879)	
<b>Total Business Type Activities</b>	<b>1,489,303</b>	<b>1,716,515</b>	<b>2,845</b>	<b>-</b>	<b>-</b>	<b>230,057</b>	<b>230,057</b>	
<b>Total Primary Government</b>	<b>\$ 2,218,797</b>	<b>\$ 1,716,515</b>	<b>\$ 139,635</b>	<b>\$ 136,989</b>	<b>\$ (455,715)</b>	<b>\$ 230,057</b>	<b>\$ (225,658)</b>	
<b>General Receipts:</b>								
Property Taxes Levies for:								
General Purposes								
					\$ 102,781	\$ -	\$ 102,781	
Special Assessments								
					95,225	29,501	124,726	
Sales & Lodging Tax								
					101,828	-	101,828	
Other Taxes								
					-	10,351	10,351	
Earnings on Investments								
					42,286	28,806	71,093	
Gain on Sale of Assets								
					1,550	1,610	3,160	
Other Receipts								
					61,514	17,337	78,851	
<b>Total General Receipts</b>								
					\$ 405,184	\$ 87,605	\$ 492,789	
Transfers To & From Other Funds								
					(22,584)	22,584	0	
Change in Net Position								
					(73,115)	340,246	267,132	
Net Position - January 1								
					3,367,306	2,896,750	6,264,056	
Restatements								
					-	(137,475)	(137,475)	
Net Position - January 1 as restated								
					3,367,306	2,759,275	6,126,581	
Net Position - December 31								
					\$ 3,294,191	\$ 3,099,520	\$ 6,393,713	

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Balance Sheet – Modified Cash Basis**  
**Governmental Funds**  
**December 31, 2015**

	Major Funds							Total Gov't. Funds
	General Fund	Community Center Fund	Special Street Fund	Sales & Lodging Tax Funds	Airport Fund	City Share of Specials Fund	Other Gov't. Funds	
<b>ASSETS:</b>								
<b>CURRENT ASSETS</b>								
Cash & Cash Equivalents	\$ 98,200	\$ (0)	\$ -	\$ 384,577	\$ 2,834	\$ -	\$ 120,026	\$ 605,637
Certificates of Deposit	-	-	-	-	-	-	45,535	45,535
Taxes Receivable - Deferred	-	-	-	-	-	-	-	-
<b>Total Current Assets</b>	<b>98,200</b>	<b>(0)</b>	<b>0</b>	<b>384,577</b>	<b>2,834</b>	<b>-</b>	<b>165,561</b>	<b>651,172</b>
<b>OTHER ASSETS &amp; DEBITS</b>								
Internal Balances	-	(287,160)	-	-	-	(8,776)	-	(295,936)
<b>Total Other Assets &amp; Debits</b>	<b>-</b>	<b>(287,160)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,776)</b>	<b>-</b>	<b>(295,936)</b>
<b>Total Assets</b>	<b>\$ 98,200</b>	<b>\$ (287,160)</b>	<b>\$ 0</b>	<b>\$ 384,577</b>	<b>\$ 2,834</b>	<b>\$ (8,776)</b>	<b>\$ 165,561</b>	<b>\$ 355,236</b>
<b>LIABILITIES AND FUND BALANCE:</b>								
<b>CURRENT LIABILITIES</b>								
Deposits	\$ -	\$ 4,100	\$ -	\$ -	\$ -	\$ -	\$ 75	\$ 4,175
<b>Total Current Liabilities</b>	<b>(0)</b>	<b>4,100</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75</b>	<b>4,175</b>
<b>FUND BALANCES</b>								
<b>Restricted For:</b>								
Capital Projects	-	-	-	-	-	-	56,685	56,685
Debt Service Funds	-	-	-	-	-	(0)	-	(0)
Economic Development	-	-	-	252,562	-	-	2,797	255,358
Infrastructure	-	-	-	132,015	-	-	-	132,015
Other	10,865	-	-	-	2,834	-	106,080	119,779
<b>Unassigned, Reported In:</b>								
General Fund	87,334	-	-	-	-	-	-	87,334
Negative Fund Balances	-	(291,260)	-	-	-	(8,776)	(75)	(300,111)
<b>Total Fund Balance</b>	<b>98,200</b>	<b>(291,260)</b>	<b>0</b>	<b>384,577</b>	<b>2,834</b>	<b>(8,776)</b>	<b>165,486</b>	<b>351,061</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 98,200</b>	<b>\$ (287,160)</b>	<b>\$ 0</b>	<b>\$ 384,577</b>	<b>\$ 2,834</b>	<b>\$ (8,776)</b>	<b>\$ 165,561</b>	<b>\$ 355,236</b>

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position**  
**Modified Cash Basis**  
**December 31, 2015**

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Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balances - Governmental Funds	\$ 351,061
Bonds Payable	(45,000)
Capital Assets net of Accumulated Depreciation	<u>2,988,131</u>
Total Net Position - Governmental Activities	<u>\$ 3,294,192</u>

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance -**  
**Modified Cash Basis**  
**Governmental Funds**  
**December 31, 2015**

	Major Funds							Total Gov't. Funds
	General Fund	Community Center Fund	Special Street Fund	Sales & Lodging Tax Funds	Airport Fund	City Share of Specials Fund	Other Gov't. Funds	
<b>Receipts:</b>								
Taxes	\$ 52,528	\$ 1,037	\$ 4,533	\$ 101,828	\$ 5,826	\$ 22,238	\$ 16,619	\$ 204,609
Special Assessments	-	-	-	-	-	95,225	-	95,225
Licenses & Permits	12,212	-	120	-	500	-	-	12,832
Intergovernmental Sources	76,534	-	60,256	-	136,989	-	-	273,779
Earnings on Investments	403	30,554	-	2,433	8,545	59	293	42,286
Other Sources	5,676	1,925	12,504	175	833	-	27,569	48,682
<b>Total Receipts</b>	<b>147,353</b>	<b>33,516</b>	<b>77,413</b>	<b>104,435</b>	<b>152,693</b>	<b>117,522</b>	<b>44,481</b>	<b>677,413</b>
<b>Disbursements:</b>								
General Government	103,009	49,788	-	-	-	10,299	725	163,821
Public Safety	30,190	-	-	-	-	-	-	30,190
Public Service	6,154	-	128,238	75,206	130,037	-	32,885	372,519
Parks, Recreation & Cemetery	-	-	-	-	-	-	38,555	38,555
Capital Outlay	-	-	5,295	39,393	850	-	3,250	48,788
<b>Debt Service:</b>								
Debt Principle Paid	-	-	-	-	-	-	15,000	15,000
Interest Expense	-	-	-	-	-	-	3,369	3,369
<b>Total Expenditures</b>	<b>139,352</b>	<b>49,788</b>	<b>133,533</b>	<b>114,599</b>	<b>130,887</b>	<b>10,299</b>	<b>93,784</b>	<b>672,241</b>
Excess Receipts over (under) Disbursements	8,001	(16,272)	(56,120)	(10,163)	21,806	107,223	(49,303)	5,172
<b>Other Financing Sources (Uses)</b>								
Sale of Fixed Assets	-	-	14,500	-	-	-	-	14,500
Interfund Transfers In	78,082	10,000	56,805	-	-	-	57,165	202,053
Interfund Transfers (Out)	(89,861)	-	(14,500)	-	-	(120,276)	-	(224,637)
<b>Net Change in Fund Balance</b>	<b>\$ (3,778)</b>	<b>\$ (6,272)</b>	<b>\$ 686</b>	<b>\$ (10,163)</b>	<b>\$ 21,806</b>	<b>\$ (13,053)</b>	<b>\$ 7,862</b>	<b>\$ (2,913)</b>
<b>Fund Balance - January 1</b>	<b>101,977</b>	<b>(284,988)</b>	<b>(686)</b>	<b>394,740</b>	<b>(18,971)</b>	<b>4,277</b>	<b>157,624</b>	<b>353,974</b>
<b>Fund Balance - December 31</b>	<b>\$ 98,200</b>	<b>\$ (291,260)</b>	<b>\$ (0)</b>	<b>\$ 384,577</b>	<b>\$ 2,834</b>	<b>\$ (8,776)</b>	<b>\$ 165,486</b>	<b>\$ 351,061</b>

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Reconciliation of Governmental Funds Statement of Receipts, Disbursements and Changes**  
**in Fund Balance to Statement of Activities – Modified Cash Basis**  
December 31, 2015

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Amounts reported for governmental activities in the statement of activities are different because:

<b>Net change in Fund Balance - Governmental Funds</b>	\$	(2,913)
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Governmental funds report capital outlays as expenses. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 *are* capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital capital outlays exceeded depreciation in the current period.

Capital Asset Additions		47,938
Capital Asset Disposals		(12,950)
Current Year Depreciation Expense		(120,190)

Governmental funds report debt principal payments as an expense. However in the statement of activities debt principal is not expensed nor is the receipt of borrowed funds treated as income. This is the amount of debt principal paid during the year.

15,000

<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(73,115)</u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Net Position - Modified Cash Basis**  
**Enterprise Funds**  
**December 31, 2015**

	Business-Type Activities - Enterprise Funds					Total
	Electric Fund	Water Fund	Sewer Fund	Garbage Fund	Golf Fund	
<b>ASSETS:</b>						
<b>CURRENT ASSETS</b>						
Cash & Cash Equivalents	\$ 126,886	\$ 259,521	4,809	13,554	\$ (0)	\$ 404,771
Materials Inventory	18,536	7,211	-	-	-	25,747
<b>Total Current Assets</b>	<b>145,422</b>	<b>266,733</b>	<b>4,809</b>	<b>13,554</b>	<b>(0)</b>	<b>430,517</b>
<b>NONCURRENT ASSETS</b>						
Capital Assets net of						
Accumulated Depreciation	855,414	1,589,413	1,299,090	-	238,939	3,982,857
Certificates of Deposit reserved for debt service	149,050	228,500	-	-	-	377,550
Internal Balances	602,824	-	(16,177)	-	(290,711)	295,936
<b>Total Noncurrent Assets</b>	<b>1,607,288</b>	<b>1,817,913</b>	<b>1,282,913</b>	<b>-</b>	<b>(51,771)</b>	<b>4,656,343</b>
<b>Total Assets</b>	<b>\$ 1,752,710</b>	<b>\$ 2,084,646</b>	<b>\$ 1,287,722</b>	<b>\$ 13,554</b>	<b>\$ (51,771)</b>	<b>\$ 5,086,861</b>
<b>LIABILITIES AND NET POSITION:</b>						
<b>CURRENT LIABILITIES</b>						
Customer Deposits	\$ 24,183	\$ -	\$ -	\$ -	\$ -	\$ 24,183
Current Portion of Long Term Debt	35,000	64,315	136,000	-	17,628	252,943
<b>Total Current Liabilities</b>	<b>59,183</b>	<b>64,315</b>	<b>136,000</b>	<b>-</b>	<b>17,628</b>	<b>277,126</b>
<b>NON CURRENT LIABILITIES</b>						
Bonds Payable	35,000	1,422,438	396,000	-	-	1,853,438
Note Payable	-	37,757	-	-	71,962	109,719
Less Current Portion	(35,000)	(64,315)	(136,000)	-	(17,628)	(252,943)
<b>Total Non Current Liabilities</b>	<b>-</b>	<b>1,395,880</b>	<b>260,000</b>	<b>-</b>	<b>54,334</b>	<b>1,710,214</b>
<b>Total Liabilities</b>	<b>59,183</b>	<b>1,460,195</b>	<b>396,000</b>	<b>-</b>	<b>71,962</b>	<b>1,987,340</b>
<b>NET POSITION</b>						
Net investment in capital assets	820,414	129,219	903,090	-	166,977	2,019,700
Restricted for debt service	149,050	292,846	4,809	-	-	446,705
Restricted for equipment replacement	-	27,938	-	-	-	27,938
Unrestricted	724,062	174,449	(16,177)	13,554	(290,711)	605,178
<b>Total Net Position</b>	<b>1,693,526</b>	<b>624,451</b>	<b>891,722</b>	<b>13,554</b>	<b>(123,733)</b>	<b>3,099,521</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 1,752,710</b>	<b>\$ 2,084,646</b>	<b>\$ 1,287,722</b>	<b>\$ 13,554</b>	<b>\$ (51,771)</b>	<b>\$ 5,086,861</b>

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Net Position – Modified Cash Basis**  
**Enterprise Funds**  
**December 31, 2015**

	Business-Type Activities - Enterprise Funds					
	Electric Fund	Water Fund	Sewer Fund	Garbage Fund	Golf Fund	Total
<b>Receipts:</b>						
Utility Sales	\$ 1,214,470	\$ 243,660	\$ 97,477	\$ 106,401	\$ -	\$ 1,662,008
Other Charges for Services	10,375	1,368	-	-	42,765	54,508
Sale of Property	1,610	-	-	-	-	1,610
Other Sources	9,103	68	11	-	11,000	20,182
<b>Total Receipts</b>	<b>1,235,559</b>	<b>245,095</b>	<b>97,487</b>	<b>106,401</b>	<b>53,765</b>	<b>1,738,307</b>
<b>Operating Disbursements:</b>						
Salaries & Benefits	116,166	30,974	12,296	-	35,267	194,704
Operational Disbursements	701,682	8,018	10,057	-	20,424	740,181
Depreciation	76,984	85,914	63,438	-	7,804	234,140
Other	64,717	51,944	18,669	104,816	21,254	261,400
<b>Total Operating Disbursements</b>	<b>959,549</b>	<b>176,851</b>	<b>104,461</b>	<b>104,816</b>	<b>84,749</b>	<b>1,430,425</b>
<b>Net Operating Income</b>	<b>\$ 276,010</b>	<b>\$ 68,245</b>	<b>\$ (6,974)</b>	<b>\$ 1,585</b>	<b>\$ (30,984)</b>	<b>\$ 307,882</b>
<b>Non-Operating Receipts (Disbursements)</b>						
Earnings on Investments	24,343	966	60	-	3,438	28,806
Special Assessments	-	-	29,501	-	-	29,501
Taxes	5,974	1,552	370	-	2,455	10,351
Interest Expense	(2,769)	(37,991)	(15,620)	-	(2,498)	(58,879)
<b>Income (Loss) Before Transfers</b>	<b>303,558</b>	<b>32,771</b>	<b>7,337</b>	<b>1,585</b>	<b>(27,590)</b>	<b>317,662</b>
Interfund Transfers In	-	68,764	130,650	-	10,000	209,414
Interfund Transfers (Out)	(107,657)	(50,430)	(28,743)	-	-	(186,830)
<b>Change in Net Position</b>	<b>\$ 195,901</b>	<b>\$ 51,105</b>	<b>\$ 109,244</b>	<b>\$ 1,585</b>	<b>\$ (17,590)</b>	<b>\$ 340,246</b>
<b>Net Position - January 1</b>	<b>1,593,672</b>	<b>591,329</b>	<b>792,572</b>	<b>25,320</b>	<b>(106,144)</b>	<b>2,896,749</b>
<b>Restatements</b>	<b>(96,047)</b>	<b>(17,983)</b>	<b>(10,094)</b>	<b>(13,351)</b>	<b>0</b>	<b>(137,475)</b>
<b>Beginning Net Assets as Restated</b>	<b>1,497,625</b>	<b>573,346</b>	<b>782,478</b>	<b>11,969</b>	<b>(106,144)</b>	<b>2,759,274</b>
<b>Net Position - December 31</b>	<b>\$ 1,693,526</b>	<b>\$ 624,451</b>	<b>\$ 891,722</b>	<b>\$ 13,554</b>	<b>\$ (123,733)</b>	<b>\$ 3,099,521</b>

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Cash Flows – Modified Cash Basis**  
**Proprietary Funds**  
**December 31, 2015**

	Business-Type Activities - Enterprise Funds					
	Electric Fund	Water Fund	Sewer Fund	Garbage Fund	Golf Fund	Total
<b>Cash Flows from Operating Activities</b>						
Receipts from Customers	\$ 1,224,845	\$ 245,028	\$ 97,477	\$ 106,401	\$ 42,765	\$ 1,716,515
Payments to Employees	(116,166)	(30,974)	(12,296)	-	(35,267)	(194,704)
Payments to Suppliers	(764,681)	(60,221)	(28,893)	(104,816)	(41,691)	(1,000,302)
Other Receipts	9,103	68	11	-	11,000	20,182
<b>Total Cash Flows from Operating Activities</b>	<b>353,102</b>	<b>153,900</b>	<b>56,298</b>	<b>1,585</b>	<b>(23,194)</b>	<b>541,691</b>
<b>Cash Flows from Noncapital Financing Activities</b>						
Transfers In	-	68,764	130,650	-	10,000	209,414
Taxes & Special Assessments	5,974	1,552	29,872	-	2,455	39,852
Transfers (Out)	(107,657)	(50,430)	(28,743)	-	-	(186,830)
(Inc.)/Decrease in Internal Balances	(102,324)	128,143	(31,707)	-	33,301	27,413
<b>Total Cash Flows from Noncapital Financing Activities</b>	<b>(204,007)</b>	<b>148,029</b>	<b>100,072</b>	<b>-</b>	<b>45,756</b>	<b>89,850</b>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Interest on Debt	(2,769)	(37,991)	(15,620)	-	(2,498)	(58,879)
Purchases of Capital Assets	(29,599)	(11,369)	-	-	(6,000)	(46,967)
Inc./(Decrease) in Bonds Payable	(30,000)	(61,186)	(136,000)	-	-	(227,186)
Inc./(Decrease) in Notes Payable	-	(2,615)	-	-	(17,502)	(20,117)
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<b>(62,368)</b>	<b>(113,160)</b>	<b>(151,620)</b>	<b>-</b>	<b>(26,000)</b>	<b>(353,148)</b>
<b>Cash Flows From Investing Activities</b>						
Proceeds from Certificate of Deposit	15,816	-	-	-	-	15,816
Earnings on Investments	24,343	966	60	-	3,438	28,806
<b>Total Cash Flows From Investing Activities</b>	<b>40,159</b>	<b>966</b>	<b>60</b>	<b>-</b>	<b>3,438</b>	<b>44,622</b>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	<b>126,886</b>	<b>189,734</b>	<b>4,809</b>	<b>1,585</b>	<b>(0)</b>	<b>323,014</b>
Cash and Cash Equivalents - January 1	-	69,787	-	11,969	-	81,756
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 126,886</b>	<b>\$ 259,521</b>	<b>\$ 4,809</b>	<b>\$ 13,554</b>	<b>\$ (0)</b>	<b>\$ 404,771</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>						
Operating Income (Loss)	276,010	68,245	(6,974)	1,585	(30,984)	307,882
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>						
Depreciation Expense	76,984	85,914	63,438	-	7,804	234,140
Inc./(Decrease) in Accounts Payable	(1,292)	(259)	(167)	-	(13)	(1,731)
Inc./(Decrease) in Deposits Payable	1,400	-	-	-	-	1,400
<b>Total Adjustments</b>	<b>\$ 77,092</b>	<b>\$ 85,655</b>	<b>\$ 63,271</b>	<b>\$ -</b>	<b>\$ 7,791</b>	<b>\$ 233,809</b>
<b>Net Cash Provided/(Used) by Operating Activities</b>	<b>\$ 353,102</b>	<b>\$ 153,900</b>	<b>\$ 56,298</b>	<b>\$ 1,585</b>	<b>\$ (23,194)</b>	<b>\$ 541,691</b>

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



**CITY OF LAKOTA, NORTH DAKOTA**  
**Notes to the Financial Statements**  
December 31, 2015

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policy of the City of Lakota, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**A. Financial Reporting Entity**

The accompanying financial statements present the activities of the City of Lakota. For financial reporting purposes, the City of Lakota's primary government includes all funds, account groups, elected officials, departments, boards, commissions, and authorities that make up the city's legal entity. The City's reporting entity also is comprised of its component units, legally separate organizations for which the City's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14 "The Financial Reporting Entity". The criteria includes appointing a voting majority of an organization's governing board 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 of Lakota.

Based upon the application of these criteria, the following is a brief review of each potential unit addressed defining the government's reporting entity:

BLENDDED COMPONENT UNITS – None

DISCRETELY PRESENTED COMPONENT UNITS - None

EXCLUDED ORGANIZATIONS – The following governmental entities are not included in these financial statements since they do not meet the criteria contained in Statement 14:

Lakota Public School District - With different boundaries than the City, the school district does not entirely or exclusively benefit City residents. The City has no authority to appoint board members and has no fiscal responsibilities. The school district can levy taxes and issue debt in its own name.

Lakota Park District – The Park District elects its own governing body, levies its own taxes, approves its own budget and authorizes debt. The City has no authority to govern or fiscal responsibility for the Park Board.

The City's basic financial statements include all of the City operations. The basic financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from City of Lakota.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type

activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

The fund financial statements provide information about the City's funds. Separate financial statements for each fund category, governmental, proprietary, and fiduciary funds, are presented. Major individual governmental and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

The city reports the following major governmental funds:

***Governmental Funds:***

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Community Building Fund – This fund accounts for revenues and expenses associated with the City's Community Center. The major source of revenues is rental income from the building. Revenues are spent on maintaining the building.

Special Street Fund – This is the City's primary street and highway maintenance fund but it also funds tree projects, weed control and mosquito control. The major source of revenue is from the State Treasury Highway Tax.

Sales & Lodging Tax Funds - This fund accounts for a 1% sales tax imposed on purchases in the City, and a lodging tax imposed upon gross receipts of every hotel located in the City. Revenues are to be spent on infrastructure and economic development.

City Share of Specials Fund – The major source of revenue for this fund is special assessments paid by the residents of the City. The revenues are used to pay the Refunding Improvement Bond of 1998.

Airport Fund – This fund accounts for revenues and expenses associated with the City's Airport Authority. Revenues are to be spent on operational expenses and maintenance of the Airport.

***Proprietary funds:***

Enterprise Funds – This account group provides basic utility service to the City residents. The fund group operates utility systems and borrows money for capital improvements through revenue bonds. Enterprise funds use the modified cash basis of accounting as defined at Note 1C above.

**C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation**

The government-wide and proprietary financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions with a

provision for depreciation in the government-wide statements, and proprietary financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Measurement Focus**

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, within the limitations of the modified cash basis of accounting, as defined below:

- a) Governmental funds utilize a “current financial resources”. 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) Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recover), financial position, and cash flows. Only cash and cash equivalents, capital assets, long term debt and inter-fund balances are generally included on their balance sheets. Short term liabilities for payroll withholding may be recognized. 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, and business-type 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 in the government-wide statements and proprietary fund statements, with a provision for depreciation in the government-wide statements, and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, 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.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing or delivering goods in connection with the fund’s normal ongoing operations. The principal operating receipts of the City’s proprietary funds are charges to customers for goods and services. Operating disbursements include the cost of sales and services, administrative expenses and depreciation on capital assets. All other receipts or disbursements are recorded as non-operating

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources, as they are needed.

#### **D. Cash and Cash Equivalents**

Cash includes amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less. The investments consist of certificates of deposit, with a maturity date in excess of 90 days, stated at cost.

For purposes of the statement of cash flow, the enterprise funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **E. Capital Assets**

Capital assets, which include land, buildings and improvements and furniture and equipment, are reported in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical 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. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-40
Infrastructure	40
Distribution systems	40
Furniture & equipment	10
Vehicles	5
Computer & electronic equipment	5

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

#### **F. Long-Term Obligations**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

#### **G. Fund Balances and Net Position**

##### ***Government-wide Financial Statements***

Prior to GASB 63, amounts were reported as equity on the statement of net assets in three primary categories, invested in capital assets net of related debt, restricted and unrestricted. Subsequent to GASB 63, the statement of net assets was changed to the statement of net position, and net assets equity was changed to net position. Net position is shown in three primary categories:

*Net investment in capital assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* – Restrictions of net position shown in the statement of net positions are due to constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

*Unrestricted net positions* – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

### ***Fund Financial Statement***

Beginning with fiscal year 2011, the City implemented GASB Statement 54, Fund Balance Reporting in Governmental Fund Types Definitions. The governmental fund financial statements present fund balances based on a hierarchy that shows, from highest to lowest, the level or form of constraints on fund balance resources and the extent to which the City is bound to honor them. The City first determines and reports non-spendable balances, then restricted, then committed, and so forth. The City’s governmental fund balances have been restated to reflect the below classifications. Fund balance classifications are summarized as follows:

*Non-spendable fund balance* – This category includes fund balance amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

*Restricted fund balance* – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

*Committed fund balance* – This category includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision making authority, the City Council. The commitment can only be removed through the same action. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* – This category includes Governmental Fund balance that the town indents to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by written approval of the City’s administration comprised of the City administrative council.

*Unassigned fund balance* – This category included the residual balances in the governmental fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purpose within the General Fund.

### **H. Interfund Transactions**

Quasi-external transactions are accounted for as receipts or disbursements. Transactions that constitute reimbursements to a fund for receipts/disbursements initially made from it that are properly applicable to another fund, are recorded as disbursements in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or none routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

## **I. Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE 2 LEGAL COMPLIANCE - BUDGETS**

#### **Budget Amendments**

The City's governing board did not amend the budget during 2015.

### **NOTE 3 DEPOSITS AND INVESTMENTS**

#### **A. Deposits**

In accordance with North Dakota statutes, the City maintains deposits in financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with a pledge of securities equal to 110% of the uninsured balance.

State statutes authorize the City to invest in:

- a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the Treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress,
- b) 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,
- c) Certificates of Deposit fully insured by the federal deposit insurance corporation or pledge of governmental securities,
- d) Obligations of the state.

The City's deposits at balance sheet date were entirely covered by federal depository insurance or pledge of governmental securities. Securities pledged were held by the District's agent in the District's name (Category II assets).

*Custodial Credit Risk* – This is the risk that deposits would be lost in the event of a bank failure. Deposits that exceed federal agency insurance limits are collateralized as stated above in accordance with state law. The City requires depository banks to furnish the City with periodic assurance of collateral coverage of district deposits.

#### **B. Investments**

*Concentration of credit risk* – The risk of loss due to the magnitude of investments in a single issuer. The City only invests in Certificates of Deposit wherein the issuer collateralizes the certificate with governmental securities.

*Interest rate risk* – The risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City only invests in Certificates of Deposit which are always purchased and redeemable at face value.

At year ended December 31, 2015, the City's carrying amount of deposits and CDs totaled \$1,433,493 and the bank balances totaled \$1,482,435. Of the bank balances, \$250,000 was covered by Federal

Depository Insurance. The remaining bank balances totaling \$1,232,435 were collateralized with securities held by the pledging financial institution's agent in the government's name.

**NOTE 4      ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts owed to the City by private individuals and organizations for goods or services provided by the utility funds.

**NOTE 5      PENSION PLAN**

**Summary of Significant Accounting Policies**

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

**General Information about the 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 plan is financed through the contributions and investment earnings of the plan.

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

***Pension Benefits***

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). 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.

For the fiscal year ending December 31, 2015, the City's contribution to PERS was \$15,857, and the members' contributions were \$14,626. For the fiscal year ending December 31, 2014, the City's contribution to PERS was \$15,292, and the members' contributions were \$12,960.

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

At December 31, 2015, the City reported a liability of \$76,027 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer'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 July 1, 2014, the City's proportion was 0.011978 percent.



For the year ended December 31, 2015, the District recognized pension expense of \$7,522. At December 31, 2015, the Employer 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 experiences	\$ 2,465	\$ -
Net difference between projected and actual earnings on pension plan investments	-	14,841
*District contributions subsequent to the measurement date of July 1, 2014	26,614	-
<b>Total</b>	<b>\$ 29,079</b>	<b>\$ 14,841</b>

\*\$26,614 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 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	\$ (3,186)
2017	(3,186)
2018	(3,186)
2019	(3,186)
2020	367
Thereafter	-
<b>Total</b>	<b>\$ (12,376)</b>

Because the City reports its financial statements on the modified cash basis, as described in Note 1, the net pension liability and related deferred inflows and outflows are not required to be reported in the basic financial statements.

**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
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 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 of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

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

***Discount rate***

The discount rate used to measure the total pension liability was 8 percent as of June 30, 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 Employer's proportionate share of the net pension liability to changes in the discount rate***

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer'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 Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	117,256	76,027	41,554

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. It is located in the North Dakota Public Employees Retirement System Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014. The supporting actuarial information is included in the June 30, 2014, GASB Statements No. 67 and 68 Accounting and Financial Reporting for Pensions actuarial valuation for each retirement plan. Additional financial and actuarial information is available on their website, [www.nd.gov/ndpers](http://www.nd.gov/ndpers), or may be obtained by contacting the agency at: North Dakota Public Employees Retirement System, 400 E Broadway Ave Suite 505, P.O. Box 1657, Bismarck, ND, 58502-1657, or by calling (701) 328-3900.

**NOTE 6 LONG-TERM LIABILITIES**

During the year ended December 31, 2015, the following changes occurred in long-term liabilities of the city:

<b>Governmental Activities</b>	<b>Balance 1/1/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/15</b>	<b>Due Within One Year</b>
Special Assessments	\$ 60,000	\$ -	\$ (15,000)	\$ 45,000	\$ 15,000
<b>Total Governmental Activities</b>	<b>\$ 60,000</b>	<b>\$ -</b>	<b>\$ (15,000)</b>	<b>\$ 45,000</b>	<b>\$ 15,000</b>
<b>Business-Type Activities</b>					
Revenue Bonds	\$ 2,080,622	\$ -	\$ (227,185)	\$ 1,853,437	\$ 232,700
Other Debt	129,834	-	(20,041)	109,793	20,243
<b>Total Business-Type Activities</b>	<b>\$ 2,210,456</b>	<b>\$ -</b>	<b>\$ (247,226)</b>	<b>\$ 1,963,230</b>	<b>\$ 252,943</b>

**SPECIAL ASSESSMENT BONDS (governmental activities)** - The City of Lakota is obligated to the following special assessment bonds:

Refunding Improvement Bonds of 1998

Original issue of \$300,000. Interest is payable semi-annually at 2.5% with principal due annually for 19 years maturing 9/01/17

\$45,000

Total special assessment bonds

\$45,000

**REVENUE BONDS (business-type activities)** - The city issues bonds where the city pledges income derived from the operations to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects. The Refunding Revenue Bonds are special obligations of the city payable solely from, and secured as to payment of principal and interest by a pledge of, the receipts from revenues of the water, sewer and garbage utility systems.

The City of Lakota is obligated to the following revenue bond issues:

Sewer Improvement Warrants of 1997

Original issue of \$2,121,000. Interest is payable at 2.5% over the 19 year amortization, maturing 9/01/17.

\$ 245,000

MCMU Utility Revenue Note, Series 2006A

Original issue of \$180,000. Interest is payable at 3.655% per annum, payable monthly with principal due semi-annually over a ten year amortization.

35,000

Wastewater Treatment Assessment Warrant, Series 2006

Authorized issue amount is \$414,948, of which \$414,948 has been advanced. The warrants are due to the North Dakota Public Finance Authority payable over twenty years at an interest rate of 2.5%. Interest is due semi-annually and principal due annually.

151,000

Water Revenue Bonds of 98, 98-2

Original issue of \$527,600. Interest is payable at 3% per annum, payable semi-annually with principal due annually over a 40 year amortization.

377,438

Water Revenue Refunding Bonds, Series 2012

Original issue amount is \$1,195,000 due in annual installments ranging from \$45,000 to \$55,000. Interest is payable semiannually starting at %1 and increasing to %4.25 over the 25 year amortization period.

1,045,000

Total Enterprise Revenue Bonds

\$ 1,853,438

Governmental and business-type activities debt service requirements to maturity at December 31, 2015 are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Special Assessment		Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	15,000	2,063	232,700	54,810
2017	15,000	1,238	203,100	49,419
2018	15,000	413	79,400	44,660
2019	-	-	79,800	42,987
2020	-	-	81,200	41,308
2021-2025	-	-	394,200	176,622
2026-2030	-	-	318,600	121,307
2031-2035	-	-	332,000	63,850
2036-2040	-	-	132,438	7,573
Total	\$ 45,000	\$ 3,714	\$ 1,853,438	\$ 602,536

**NOTE 7 OTHER DEBT PAYABLE**

The City of Lakota is obligated to several other debt obligations as itemized below:

State Bank of Lakota – Capitalized lease for construction of the Lakota golf course. January 1, 2001 the City entered into a lease purchase agreement with the State Bank of Lakota to finance construction of a municipal golf course. The amount financed was \$250,000 payable over twenty five years. The base interest rate was 5.5%. The rate is variable over the twenty five years with a minimum rate of 5% and a maximum rate of 10%. Annual lease payments are a minimum of \$25,000 at 5.5% rate and adjusted upwards by any increase in interest rate. The current rate on the contract is 5.5%.

Current principal balance is 71,961

Tri-County Water District – May 6, 2008 the City entered into an agreement with the Tri-County Water District for a temporary sale and purchase of water. The amount financed was \$54,125 payable over 19 years. The base interest rate is 3.00% and is fixed over the 19 year amortization period. Annual lease payments are fixed at \$3,750.

Current principle balance is 37,833

Total other debt \$109,794

Future principal and interest requirements on other debt are as follows:

Year Ending December 31	Other Debt	
	Principal	Interest
2016	20,243	3,508
2017	20,900	2,850
2018	21,573	2,177
2019	20,186	1,483
2020	2,943	807
2021-2025	16,095	2,655
2026-2030	7,853	366
Total	<u>\$ 109,793</u>	<u>\$ 13,846</u>

**NOTE 8 CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2015:

<b>Capital assets not being depreciated</b>			
Construction in Progress	\$ 85,374	\$ -	\$ (85,374) \$ -
Total capital assets not being depreciated	<u>85,374</u>	<u>-</u>	<u>(85,374) -</u>
<b>Capital assets being depreciated</b>			
Building & Improvements	\$ 1,085,625	\$ 124,766	\$ - \$ 1,210,391
Infrastructure	3,274,915	-	- 3,274,915
Equipment	381,032	9,811	(17,600) 373,243
Total capital assets being depreciated	<u>\$ 4,741,572</u>	<u>\$ 134,577</u>	<u>\$ (17,600) \$ 4,858,549</u>
<b>Less: accumulated depreciation</b>			
Buildings & Improvements	(396,462)	(29,984)	(426,446)
Infrastructure	(1,066,119)	(75,931)	- (1,142,050)
Equipment	(291,031)	(14,275)	3,384 (301,922)
Total accumulated depreciation	<u>\$(1,753,612)</u>	<u>\$ (120,190)</u>	<u>\$ 3,384 \$(1,870,418)</u>
<b>Governmental activities capital assets, Net</b>	<u>\$ 3,073,334</u>	<u>\$ 14,387</u>	<u>\$ (99,590) \$ 2,988,131</u>

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

<b>Governmental Activities</b>	
Public Service	\$ 119,749
Parks, Recreation, Cemetery	<u>441</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 120,190</u>

<u>Business-Type Activities</u>	<u>Balance Jan 1, 2015</u>	<u>Additions</u>	<u>(Disposals)</u>	<u>Balance Dec 31, 2015</u>
<b>Capital assets being depreciated</b>				
Electric Utility	\$ 2,181,405	\$ 31,696	\$ (5,987)	\$ 2,207,114
Water Utility	3,553,446	11,369	-	3,564,815
Sewer Utility	2,146,891	-	-	2,146,891
Golf Course	312,719	6,000	-	318,719
Total capital assets being depreciated	<u>\$ 8,194,461</u>	<u>\$ 49,064</u>	<u>\$ (5,987)</u>	<u>\$ 8,237,538</u>
<b>Less: accumulated depreciation</b>				
Electric Utility	\$(1,278,605)	\$ (76,984)	\$ 3,890	\$(1,351,699)
Water Utility	(1,889,487)	(85,914)	-	(1,975,401)
Sewer Utility	(784,363)	(63,438)	-	(847,801)
Golf Course	(71,975)	(7,804)	-	(79,779)
Total accumulated depreciation	<u>\$(4,024,430)</u>	<u>\$ (234,140)</u>	<u>\$ 3,890</u>	<u>\$(4,254,680)</u>
<b>Total Business-Type activities, Net</b>	<u><u>\$ 4,170,030</u></u>	<u><u>\$ (185,076)</u></u>	<u><u>\$ (2,097)</u></u>	<u><u>\$ 3,982,857</u></u>

#### **NOTE 9 RISK MANAGEMENT**

The City of Lakota is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, state agencies and political subdivisions 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, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of one million dollars per occurrence. The City of Lakota also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lakota 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 one million dollars per occurrence during a 12-month period. The State Bonding fund currently provides the City of Lakota with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Lakota also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### **NOTE 10 COMPENSATED ABSENCES**

The City does not account for compensated absences. The amount of liability cannot be readily ascertained.

#### **NOTE 11 INVENTORIES**

The proprietary funds maintain an inventory of materials and supplies used for operation of the utility. Inventory is valued at cost. No perpetual records are kept but a periodic count is taken. There is very little variation in inventory from year to year because the same quantities of the same items are generally kept on hand and replaced as used.

**NOTE 12 DUE TO/FROM OTHER FUNDS**

At year-end December 31, 2015, negative overall cash balances existed in the community building fund, the city share of specials fund, the sewer fund, and the golf fund totaling \$602,824. The cash deficit for reporting purposes in the balance sheet was covered by the electric fund. A due from other funds was recorded in the electric fund and a corresponding due to other funds was reported in the community building fund, the city share of specials fund, the sewer fund, and the golf fund.

The Community Building Fund borrowed from the Electric Fund to build the community center owned by the city. The borrowing is expected to be forgiven by motion of the council in subsequent years. The golf fund and sewer fund borrowed from the electric fund for short term working capital needs. These borrowings are expected to be paid back out of future revenues.

The following is a summary of interfund balances:

	December 31, 2015
	Due (To) From
	Other Funds
<b>Governmental Activities</b>	
Community Building Fund	(287,160)
City Share of Specials	(8,776)
<b>Total Governmental Activities</b>	<u>\$ (295,936)</u>
<b>Business-Type Activities</b>	
Electric Fund	\$ 602,824
Sewer	(16,177)
Golf Fund	(290,711)
<b>Total Business Type Activities</b>	<u>\$ 295,936</u>

**NOTE 13 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 14      TRANSFERS**

The operating transfers were as follows:

Fund	In	Out
General	\$ 78,082	\$ (89,861)
Highway Fund	56,805	(14,500)
Community Building Fund	10,000	-
Sales Tax Fund	-	-
City Share of Specials	-	(120,276)
Library Fund	10,605	-
Swimming Pool Fund	28,173	-
Cemetary Fund	18	-
Airport Authority Fund	-	-
Debt Service Fund	18,369	-
Electric Fund	-	(107,657)
Garbage	-	-
Water	18,334	(50,430)
Sewer	130,650	(28,743)
Water Improvement 97	16,554	-
Water Improvement 2008	33,876	-
Golf Course Fund	10,000	-
	<u>\$ 411,467</u>	<u>\$ (411,467)</u>

Transfers were made for cash management, fixed asset management needs, and debt service requirements.

**NOTE 15      DEFICIT FUND BALANCE**

The fund balance in the Community Building Fund at December 31, 2015 was \$(291,260) and at December 31, 2014 was \$(284,988). The cause of this deficit was a borrowing from the Electric Fund to build the community center owned by the city. The deficit fund balance is expected to be forgiven by motion of the city council.

The fund balance in the City Share of Specials Fund at December 31, 2015 was \$(8,776) and at December 31, 2014 was \$4,277. The cause of this deficit was expenditures that were in excess of revenues. The deficit fund balance is expected to be relieved from future revenues.

The fund balance in the Golf Fund at December 31, 2015 was \$(123,733) and at December 31, 2014 was \$(106,144). The cause of this deficit was expenditures that were in excess of revenues. The deficit fund balance is expected to be relieved from future revenues.

**NOTE 16      PRIOR PERIOD ADJUSTMENT**

The following adjustments were made to the City's net position:

**Proprietary Fund Restatements**

Electric Fund	(96,047) *
Water Fund	(17,983) *
Sewer Fund	(10,094) *
Garbage Fund	(13,351) *

**Total** \$ (137,475)

\* - This decrease represents the accounts receivable balance on December 31, 2014. The restatement is necessary to convert the proprietary funds to the modified cash basis.

**NOTE 17      SUBSEQUENT EVENTS**

No significant events occurred subsequent to the City's year end. Subsequent events have been evaluated through August 3, 2016, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance**  
**Budget & Actual - General Fund – Modified Cash Basis**  
December 31, 2015

	<u>General Fund</u>		
	Original & Final Budget	Actual	Variance
<b>Receipts:</b>			
Taxes	\$ 65,020	\$ 52,528	\$ (12,492)
Licenses & Permits	9,360	12,212	2,852
Intergovernmental Sources	77,280	76,534	(746)
Earnings on Investments	800	403	(397)
Sale of Property	2,000	-	(2,000)
Other Sources	2,000	5,676	3,676
<b>Total Receipts</b>	<u>156,460</u>	<u>147,353</u>	<u>(9,107)</u>
<b>Disbursements:</b>			
General Government	83,145	103,009	(19,864)
Public Safety	27,820	30,190	(2,370)
Public Service	3,670	6,154	(2,484)
<b>Total Disbursements</b>	<u>114,635</u>	<u>139,352</u>	<u>(24,717)</u>
Excess Receipts over (under) Disbursements	<u>41,825</u>	<u>8,001</u>	<u>(33,824)</u>
Interfund Transfers In	183,253	78,082	(105,171)
Interfund Transfers (Out)	(209,271)	(89,861)	
<b>Net change in Fund Balances</b>	<u>\$ 15,807</u>	<u>\$ (3,778)</u>	<u>\$ (138,995)</u>
<b>Fund Balance - January 1</b>	101,977	101,977	
<b>Fund Balance - December 31</b>	<u>\$ 117,784</u>	<u>\$ 98,200</u>	

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance**  
**Budget & Actual – Community Building Fund – Modified Cash Basis**  
December 31, 2015

	<u>Community Center Fund</u>		
	Original & Final Budget	Actual	Variance
<b>Receipts:</b>			
Taxes	\$ 925	\$ 1,037	\$ 112
Earnings on Investments	30,003	30,554	551
Other Sources	100	1,925	1,825
<b>Total Receipts</b>	<u>31,028</u>	<u>33,516</u>	<u>2,488</u>
<b>Disbursements:</b>			
General Government	41,625	49,788	(8,163)
Capital Outlay	500	-	500
<b>Total Disbursements</b>	<u>42,125</u>	<u>49,788</u>	<u>(7,663)</u>
Excess Receipts over (under) Disbursements	<u>(11,097)</u>	<u>(16,272)</u>	<u>(5,175)</u>
Interfund Transfers In (Out)	11,097	10,000	(1,097)
<b>Net change in Fund Balances</b>	<u>\$ -</u>	<u>\$ (6,272)</u>	<u>\$ (6,272)</u>
<b>Fund Balance - January 1</b>	(284,988)	(284,988)	
<b>Fund Balance - December 31</b>	<u>\$ (284,988)</u>	<u>\$ (291,260)</u>	

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance**  
**Budget & Actual – Special Street Fund – Modified Cash Basis**  
December 31, 2015

<u>Special Street Fund</u>			
	Original & Final Budget	Actual	Variance
<b>Receipts:</b>			
Taxes	\$ 6,825	\$ 4,533	\$ (2,292)
License and Permits	500	120	(380)
Intergovernmental Sources	80,000	60,256	(19,744)
Other Sources	13,200	12,504	(696)
<b>Total Receipts</b>	<u>100,525</u>	<u>77,413</u>	<u>(23,112)</u>
<b>Disbursements:</b>			
Public Service	187,055	133,533	53,522
<b>Total Disbursements</b>	<u>187,055</u>	<u>133,533</u>	<u>53,522</u>
Excess Receipts over (under) Disbursements	<u>(86,530)</u>	<u>(56,120)</u>	<u>30,410</u>
Interfund Transfers In (Out)	86,530	56,805	(29,725)
<b>Net change in Fund Balances</b>	<u>\$ -</u>	<u>\$ 686</u>	<u>\$ 686</u>
<b>Fund Balance - January 1</b>	(686)	(686)	
<b>Fund Balance - December 31</b>	<u>\$ (686)</u>	<u>\$ (0)</u>	

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance**  
**Budget & Actual -- Sales & Lodging Tax Funds -- Modified Cash Basis**  
**December 31, 2015**

Sales & Lodging Tax Funds

	Original & Final Budget	Actual	Variance
<b>Receipts:</b>			
Taxes	\$ 59,000	\$ 101,828	\$ 42,828
Earnings on Investments	1,000	2,433	1,433
Miscellaneous	400	175	(225)
<b>Total Revenues</b>	60,400	104,435	44,035
<b>Disbursements:</b>			
Economic Development	60,400	75,206	(14,806)
Capital Outlay	-	39,393	(39,393)
<b>Total Disbursements</b>	60,400	114,599	(54,199)
<b>Net change in Fund Balances</b>	\$ -	\$ (10,163)	\$ (10,163)
<b>Fund Balance - January 1</b>	394,740	394,740	-
<b>Fund Balance - December 31</b>	\$ 394,740	\$ 384,577	

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Statement of Receipts, Disbursements and Changes in Fund Balance**  
**Budget & Actual – City Share of Specials – Modified Cash Basis**  
December 31, 2015

<u>City Share of Specials</u>			
	Original & Final Budget	Actual	Variance
<b>Receipts:</b>			
Taxes	\$ 117,843	\$ 117,463	\$ (379)
Earnings on Investments	50	59	9
<b>Total Revenues</b>	<u>117,893</u>	<u>117,522</u>	<u>(371)</u>
<b>Disbursements:</b>			
Special Assessments Paid	-	10,299	(10,299)
<b>Total Disbursements</b>	<u>-</u>	<u>10,299</u>	<u>(10,299)</u>
Excess Receipts over (under) Disbursements	<u>117,893</u>	<u>107,223</u>	<u>(10,669)</u>
Interfund Transfers In (Out)	(117,893)	(120,276)	(2,384)
Net change in Fund Balances	<u>\$ -</u>	<u>\$ (13,053)</u>	<u>\$ (13,053)</u>
<b>Fund Balance - January 1</b>	4,277	4,277	
<b>Fund Balance - December 31</b>	<u>\$ 4,277</u>	<u>\$ (8,776)</u>	

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



**CITY OF LAKOTA, NORTH DAKOTA**  
**Schedule of Employer's Share of Net Pension Liability**  
**ND Public Employees Retirement System**  
 Last 10 Fiscal Years\*

	2015
Employer's proportion of the net pension liability (asset)	0.011978%
Employer's proportionate share of the net pension liability (asset)	\$76,027
Employer's covered-employee payroll	\$100,897
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.4%
Plan fiduciary net position as a percentage of the total pension liability	77.7%

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

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Schedule of Employer Contributions**  
**ND Public Employees Retirement System**  
Last 10 Fiscal Years\*

---

	2015
Statutorily required contribution	\$7,184
Contributions in relation to the statutorily required contribution	(\$7,184)
Contribution deficiency (excess)	\$0
Employer's covered-employee payroll	\$100,897
Contributions as a percentage of covered-employee payroll	7.12%

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

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

**CITY OF LAKOTA, NORTH DAKOTA**  
**Notes to the Required Supplementary Information**  
December 31, 2015

The City follows these procedures in establishing the budgetary data reflected in the financial statement:

- a) The final budget must be adopted on or before October 7, and must be filed with the County Auditor by October 10. The budget may be amended during the year, except no amendment changing the taxes levied can be made after October 10.
- b) The City Council approves total budget appropriations only. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc.)
- c) The budget amounts shown in the financial statements are the final authorized amounts.

The city does not prepare budgets for special assessment debt service funds. Assessments are certified to the county for collection. The city also has some non-major special revenue funds that do not have a tax levy and very minimal expenditures that are not budgeted. Management therefore does not prepare budget to actual comparisons for either the debt service or non-major special revenue fund groups.

The city auditor prepares a preliminary budget for the general and some of the special revenue funds on the cash basis of accounting. Because not all special revenue funds are budgeted, a budget to actual comparison of non-major special revenue funds is not done. The preliminary budget includes proposed expenditures and the means of financing them. The governing body reviews the preliminary budget, may make revisions and approve it on or before September 10. On or before October 7, a public hearing is held for taxpayers to discuss any budgeted items.

The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10. No expenditure shall be made or liability incurred in excess of the appropriation, except for transfers as authorized by North Dakota Century Code Section 40-40-21. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10. At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

Budgets are prepared on the cash basis of accounting which does not differ significantly from the modified cash method used for financial reporting.

The following fund's expenditures exceeded budgeted amounts for the year ended December 31, 2015.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	114,635	139,352	(24,717)
Community Center	42,125	49,788	(7,663)
Sales Tax and Lodging	60,400	114,599	(54,199)
City Share of Special Assessments	-	10,299	(10,299)

No corrective action by the governing board is planned.

**SUPPLEMENTARY INFORMATION**

**CITY OF LAKOTA, NORTH DAKOTA**  
**Schedule of Fund Activity – Modified Cash Basis**  
December 31, 2015

<b>Governmental Funds</b>	Balance 01/01/15	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12/31/15
<b>Major Funds</b>							
General	\$ 101,977	\$ 147,353	\$ 78,082	\$ -	\$ (89,861)	\$ (139,352)	\$ 98,200
Community Center	(284,988)	33,516	10,000	-	-	(49,788)	(291,260)
Special Street	(686)	91,913	56,805	-	(14,500)	(133,533)	0
Sales & Lodging Tax	394,740	104,435	-	-	-	(114,599)	384,577
City Share of Specials	4,277	117,522	-	-	(120,276)	(10,299)	(8,776)
<b>Total Major Funds</b>	<b>\$ 215,320</b>	<b>\$ 494,740</b>	<b>\$ 144,888</b>	<b>\$ -</b>	<b>\$ (224,637)</b>	<b>\$ (447,570)</b>	<b>\$ 182,740</b>
<b>Non-major Funds</b>							
Library Fund	\$ 27,958	\$ 23,824	\$ 10,605	\$ -	\$ -	\$ (32,885)	\$ 29,502
Swimming Pool Fund	(107)	439	28,173	-	-	(28,581)	(75)
Cemetery Fund	46,370	13,404	18	-	-	(13,224)	46,567
Airport Authority Fund	(18,971)	152,693	-	-	-	(130,887)	2,834
Building Fund	45,614	3,802	-	-	-	-	49,416
Municipal Court	-	-	-	-	-	-	-
Emergency Fund	32,588	2,013	-	-	-	-	34,601
Advertising Fund	2,406	996	-	-	-	(725)	2,678
Economic Developemnt Fund	2,794	3	-	-	-	-	2,797
Debt Service Fund	-	-	18,369	-	-	(18,369)	-
<b>Total Non-major Funds</b>	<b>\$ 138,653</b>	<b>\$ 197,173</b>	<b>\$ 57,165</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (224,671)</b>	<b>\$ 168,321</b>
<b>Total Governmental Funds</b>	<b>\$ 353,974</b>	<b>\$ 691,913</b>	<b>\$ 202,053</b>	<b>\$ -</b>	<b>\$ (224,637)</b>	<b>\$ (672,241)</b>	<b>\$ 351,061</b>
<b>Enterprise Funds</b>							
<b>Major Funds</b>							
Electric Fund	\$ 1,497,625	\$ 1,235,559	\$ -	\$ 27,548	\$ (107,657)	\$ (959,549)	\$ 1,693,526
Water Fund	573,346	245,095	68,764	(35,474)	(50,430)	(176,851)	624,451
Sewer Fund	782,478	97,487	130,650	14,311	(28,743)	(104,461)	891,722
Garbage Fund	11,969	106,401	-	-	-	(104,816)	13,554
Golf Fund	(106,144)	53,765	10,000	3,394	-	(84,749)	(123,733)
<b>Total Major Funds</b>	<b>\$ 2,759,274</b>	<b>\$ 1,738,307</b>	<b>\$ 209,414</b>	<b>\$ 9,780</b>	<b>\$ (186,830)</b>	<b>\$ (1,430,425)</b>	<b>\$ 3,099,521</b>
<b>Total Enterprise Funds</b>	<b>\$ 2,759,275</b>	<b>\$ 1,738,307</b>	<b>\$ 209,414</b>	<b>\$ 9,780</b>	<b>\$ (186,830)</b>	<b>\$ (1,430,425)</b>	<b>\$ 3,099,521</b>
<b>Total Reporting Entity</b>	<b>\$ 3,113,249</b>	<b>\$ 2,430,220</b>	<b>\$ 411,467</b>	<b>\$ 9,780</b>	<b>\$ (411,467)</b>	<b>\$ (2,102,666)</b>	<b>\$ 3,450,582</b>

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



Accounting For Success

INDEPENDENT AUDITOR'S ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STAEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Lakota, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lakota, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise City of Lakota, North Dakota's basic financial statements and have issued our report thereon dated August 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Lakota, North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lakota, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lakota, North Dakota'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control hat 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. We did identify a certain deficiency in internal control, 2015-1, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

CAVALIER | PARK RIVER | LANGDON | STEPHEN
206 Dakota Street West | 1203 Park Street East | 817 3rd Street | 413 5th Street
P.O. BOX 33 | P.O. BOX 287 | FM Mall | P.O. BOX 45
Cavalier, ND 58220 | Park River, ND 58270 | Langdon, ND 58249 | Stephen, MN 56757
(701) 265-8644 | (701) 284-7616 | (701) 256-3559 | (218) 478-2880

## **Compliance and Other Matters**

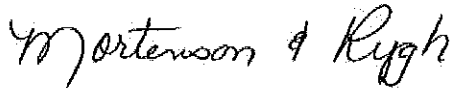
As part of obtaining reasonable assurance about whether City of Lakota, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2015-1.

## **City of Lakota, North Dakota's Response to Findings**

City of Lakota, North Dakota's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Lakota, North Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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



Mortenson & Rygh  
Certified Public Accountants  
Park River, North Dakota

August 3, 2016

**CITY OF LAKOTA, NORTH DAKOTA**  
**Schedule of Findings and Responses**  
December 31, 2015

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**FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:**

**2015-1 Segregation of Duties**

**Condition:**

The City of Lakota, North Dakota, has one bookkeeper responsible for most accounting functions and general ledger maintenance.

**Effect:**

Without adequate fraud risk programs and controls, the City of Lakota exposes itself to risk of loss of assets, potential liabilities, and damage to reputation, whether due to error or fraud.

**Cause:**

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 disbursement journals, maintain the general ledger, and prepare financial statements. This increases the risk of misstatements to the City of Lakota's financial condition.

**Criteria:**

The guidance relating to internal control is contained in Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the City of Lakota.

**Recommendation:**

Due to the size and funding limitations of the City, we understand that it is not feasible to obtain proper segregation of duties. However, if at any time it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the City of Lakota do so. We further recommend that the City implement any controls possible to separate the functions of approval of posting of transactions, reconciliations, and custody of assets.

**Client Response:**

Management agrees with the recommendation. A member of the board does approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the governing board.