

FINANCIAL STATEMENTS

CITY OF LAKOTA
LAKOTA, NORTH DAKOTA

For the Year Ended
DECEMBER 31, 2016

Prepared By

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

CITY OF LAKOTA, NORTH DAKOTA
Table of Contents
December 31, 2016

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.....	31
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual - General Fund – Modified Cash Basis.....	32
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Special Street Fund – Modified Cash Basis	33
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Library Fund – Modified Cash Basis.....	34
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – Sales & Lodging Tax Funds – Modified Cash Basis	35
Statement of Receipts, Disbursements and Changes in Fund Balance Budget & Actual – City Share of Specials – Modified Cash Basis	36
Schedule of Employer’s Share of Net Pension Liability ND Public Employees Retirement System.....	37
Schedule of Employer Contributions ND Public Employees Retirement System	38
Notes to the Required Supplementary Information	39
SUPPLEMENTARY INFORMATION	41
Schedule of Fund Activity – Modified Cash Basis	42
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	43
Schedule of Findings and Responses	45

CITY OF LAKOTA, NORTH DAKOTA

City Officials

December 31, 2016

Dennis Mattern	Council Member
Robin Ouradnik	Council Member
Anna Viehman	Council Member
Ed Pawlikowski	Council Member
Jim Vasichek	Council Member
Norris Severtson	Council Member
Jeff Russo	Mayor
Amie Vasichek	Auditor

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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

CAVALIER

206 Dakota Street West
P.O. BOX 33
Cavalier, ND 58220
(701) 265-8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

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, 2016, 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 36 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2017, on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City’s internal control over financial reporting and compliance.



Mortenson & Rygh
Certified Public Accountants
Park River, North Dakota

August 18, 2017

BASIC FINANCIAL STATEMENTS

CITY OF LAKOTA, NORTH DAKOTA
Statement of Net Position – Modified Cash Basis
December 31, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 692,044	\$ 526,256	\$ 1,218,300
Certificates of Deposit	45,335	-	45,335
Materials Inventory	-	25,747	25,747
Total Current Assets	737,380	552,003	1,289,383
CAPITAL ASSETS			
Capital Assets net of Accumulated Depreciation	3,084,292	3,767,938	6,852,230
Total Capital Assets	3,084,292	3,767,938	6,852,230
OTHER ASSETS			
Certificate of Deposits reserved for debt service	-	387,550	387,550
Total Other Assets	-	387,550	387,550
Total Assets	\$ 3,821,672	\$ 4,707,492	\$ 8,529,163
LIABILITIES AND NET POSITION:			
CURRENT LIABILITIES			
Customer Deposits	\$ 4,075	\$ 23,483	\$ 27,558
Current Maturity on Long Term Debt	15,000	224,592	239,592
Total Current Liabilities	19,075	248,075	267,150
NON CURRENT LIABILITIES			
Bonds Payable	30,000	1,620,719	1,650,719
Notes Payable	-	89,429	89,429
Less: Current Maturities on Long Term Debt	(15,000)	(224,592)	(239,592)
Total Non Current Liabilities	15,000	1,485,556	1,500,556
Total Liabilities	34,075	1,733,631	1,767,706
NET POSITION			
Net investment in capital assets	3,054,292	2,057,791	5,112,083
Restricted For:			
Capital Projects	136,019	-	136,019
Debt Service	28,548	467,114	495,661
Economic Development	141,075	-	141,075
Infrastructure	240,299	-	240,299
Equipment Replacement	-	28,967	28,967
Other	133,963	-	133,963
Unrestricted	53,400	419,989	473,389
Total Net Position	3,787,596	2,973,861	6,761,457
Total Liabilities & Net Position	\$ 3,821,672	\$ 4,707,492	\$ 8,529,163

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, 2016

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
Government Activities:							
General Government	\$ 109,559	\$ -		\$ -	\$ (109,559)	\$ -	\$ (109,559)
Public Safety	25,502	-	-	-	(25,502)	-	(25,502)
Public Service	483,906	-	48,670	315,605	(119,630)	-	(119,630)
Parks, Recreation & Cemetery	44,645	-	-	-	(44,645)	-	(44,645)
Interest Expense	3,504	-	-	-	(3,504)	-	(3,504)
Total Government Activities	667,116	-	48,670	315,605	(302,840)	-	(302,840)
Business Type Activities:							
Utility Systems	1,320,700	1,577,803	-	-	-	257,103	257,103
Other	84,012	1,301	-	-	-	(82,711)	(82,711)
Interest Expense	64,319	-	-	-	-	(64,319)	(64,319)
Total Business Type Activities	1,469,031	1,579,104	-	-	-	110,073	110,073
Total Primary Government	\$ 2,136,147	\$ 1,579,104	\$ 48,670	\$ 315,605	\$ (302,840)	\$ 110,073	\$ (192,767)
General Receipts:							
Property Taxes Levies for:							
General Purposes					\$ 105,995	\$ -	\$ 105,995
Special Assessments					96,810	29,389	126,198
Sales & Lodging Tax					69,895	-	69,895
Other Taxes					-	11,686	11,686
Federal & State Aid not restricted to special purposes					50,000	-	50,000
Earnings on Investments					46,608	28,888	75,496
Gain on Sale of Assets					11,250	-	11,250
Other Receipts					54,431	55,560	109,991
Total General Receipts					\$ 434,988	\$ 125,523	\$ 560,512
Transfers To & From Other Funds					361,257	(361,257)	-
Change in Net Position					493,405	(125,660)	367,745
Net Position - January 1					3,294,191	3,099,520	6,393,713
Net Position - December 31					\$ 3,787,596	\$ 2,973,861	\$ 6,761,457

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, 2016

	Major Funds						Total Gov'tl. Funds
	General Fund	Special Street Fund	Library Fund	Sales & Lodging Tax Funds	City Share of Specials Fund	Other Gov't. Funds	
ASSETS:							
CURRENT ASSETS							
Cash & Cash Equivalents	\$ 59,751	\$ -	\$ 109,718	\$ 378,578	\$ 28,548	\$ 115,449	\$ 692,044
Certificates of Deposit	-	-	10,946	-	-	34,390	45,335
Taxes Receivable - Deferred							
Total Current Assets	59,751	-	120,664	378,578	28,548	149,839	737,380
Total Assets	\$ 59,751	\$ -	\$ 120,664	\$ 378,578	\$ 28,548	\$ 149,839	\$ 737,380
LIABILITIES AND FUND BALANCE:							
CURRENT LIABILITIES							
Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,075	\$ 4,075
Total Current Liabilities	-	-	-	-	-	4,075	4,075
FUND BALANCES							
Restricted For:							
Capital Projects	-	-	86,603	-	-	49,416	136,019
Debt Service Funds	-	-	-	-	28,548	-	28,548
Economic Development	-	-	-	138,279	-	2,797	141,075
Infrastructure	-	-	-	240,299	-	-	240,299
Other	6,226	-	34,061	-	-	93,676	133,963
Unassigned, Reported In:							
General Fund	53,526	-	-	-	-	-	53,526
Negative Fund Balances	-	-	-	-	-	(125)	(125)
Total Fund Balance	59,751	-	120,664	378,578	28,548	145,764	733,305
Total Liabilities & Fund Balance	\$ 59,751	\$ -	\$ 120,664	\$ 378,578	\$ 28,548	\$ 149,839	\$ 737,380

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, 2016

Total <i>Fund Balance</i> for Governmental Funds	\$	733,305
--	----	---------

Total *net position* reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and are not reported in the funds.

Cost of Capital Assets	5,076,615	
Less: Accumulated Depreciation	<u>(1,992,323)</u>	
Net Capital Assets		3,084,292

Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term are reported in the statement of net position.

Bonds Payable		(30,000)
---------------	--	----------

Total Net Position - Governmental Activities	\$	<u><u>3,787,596</u></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, 2016

	Major Funds						Total Gov't. Funds
	General	Special	Library	Sales &	City Share	Other	
	Fund	Street Fund	Fund	Lodging Tax Funds	of Specials Fund	Gov't. Funds	
Receipts:							
Taxes	\$ 57,249	\$ 6,145	\$ 7,724	\$ 69,895	\$ 22,105	\$ 12,772	\$ 175,890
Special Assessments	-	-	-	-	96,810	-	96,810
Licenses & Permits	11,788	138	-	-	-	3,075	15,001
Intergovernmental Sources	50,000	48,670	122,029	-	-	63,218	283,917
Earnings on Investments	487	-	149	2,366	43	43,563	46,608
Other Sources	3,695	14,883	133,057	1,946	-	16,207	169,788
Total Receipts	123,219	69,836	262,959	74,207	118,957	138,835	788,014
Disbursements:							
Current:							
General Government	85,864	-	-	-	10,210	13,486	109,559
Public Safety	25,502	-	-	-	-	-	25,502
Public Service	12,188	166,690	37,368	55,911	-	90,296	362,453
Parks, Recreation & Cemetery	-	-	-	-	-	44,193	44,193
Capital Outlay	-	-	145,190	6,303	-	66,573	218,066
Debt Service:							
Debt Principle Paid	-	-	-	-	-	15,000	15,000
Interest Expense	-	-	-	814	-	2,690	3,504
Total Expenditures	123,554	166,690	182,558	63,028	10,210	232,237	778,277
Excess Receipts over (under) Disbursements	(336)	(96,853)	80,401	11,179	108,747	(93,401)	9,737
Other Financing Sources (Uses)							
Sale of Fixed Assets	11,250	-	-	-	-	-	11,250
Interfund Transfers In	110,473	96,853	10,760	2,062	-	391,607	611,756
Interfund Transfers (Out)	(159,836)	-	-	(19,240)	(71,423)	-	(250,499)
Net Change in Fund Balance	\$ (38,448)	\$ (0)	\$ 91,161	\$ (5,999)	\$ 37,324	\$ 298,205	\$ 382,244
Fund Balance - January 1	98,200	-	29,502	384,577	(8,776)	(152,442)	351,061
Fund Balance - December 31	\$ 59,751	\$ (0)	\$ 120,664	\$ 378,578	\$ 28,548	\$ 145,764	\$ 733,305

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, 2016

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

Net change in Fund Balance - Governmental Funds	\$	382,244
--	----	---------

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		218,066
Current Year Depreciation Expense		(121,905)

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
---	--	--------

Change in Net Position of Governmental Activities	\$	<u>493,405</u>
--	-----------	-----------------------

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, 2016

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
ASSETS:					
CURRENT ASSETS					
Cash & Cash Equivalents	\$ 209,380	\$ 286,677	13,746	16,453	\$ 526,256
Materials Inventory	18,536	7,211	-	-	25,747
Total Current Assets	227,915	293,889	13,746	16,453	552,003
NONCURRENT ASSETS					
Capital Assets net of					
Accumulated Depreciation	778,820	1,518,228	1,240,555	230,335	3,767,938
Certificates of Deposit reserved for debt service	159,050	228,500	-	-	387,550
Internal Balances	51,514	-	(51,514)	-	-
Total Noncurrent Assets	989,385	1,746,728	1,189,041	230,335	4,155,489
Total Assets	\$ 1,217,300	\$ 2,040,616	\$ 1,202,787	\$ 246,789	\$ 4,707,492
LIABILITIES AND NET POSITION:					
CURRENT LIABILITIES					
Customer Deposits	\$ 23,483	\$ -	\$ -	\$ -	\$ 23,483
Current Portion of Long Term Debt	-	64,793	141,000	18,799	224,592
Total Current Liabilities	23,483	64,793	141,000	18,799	248,075
NON CURRENT LIABILITIES					
Bonds Payable	-	1,360,719	260,000	-	1,620,719
Note Payable	-	35,218	-	54,211	89,429
Less Current Portion	-	(64,793)	(141,000)	(18,799)	(224,592)
Total Non Current Liabilities	-	1,331,144	119,000	35,412	1,485,556
Total Liabilities	23,483	1,395,937	260,000	54,211	1,733,631
NET POSITION					
Net investment in capital assets	778,820	122,291	980,555	176,124	2,057,791
Restricted for debt service	159,050	294,318	13,746	-	467,114
Restricted for equipment replacement	-	28,967	-	-	28,967
Unrestricted	255,946	199,104	(51,514)	16,453	419,989
Total Net Position	1,193,817	644,680	942,787	192,577	2,973,861
Total Liabilities & Net Position	\$ 1,217,300	\$ 2,040,616	\$ 1,202,787	\$ 246,789	\$ 4,707,492

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, 2016

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Receipts:					
Utility Sales	\$ 1,136,742	\$ 236,666	\$ 96,665	\$ 107,731	\$ 1,577,803
Other Charges for Services	300	1,001	-	-	1,301
Other Sources	6,718	-	185	48,657	55,560
Total Receipts	1,143,760	237,666	96,850	156,388	1,634,664
Operating Disbursements:					
Salaries & Benefits	127,610	34,610	16,149	35,113	213,482
Operational Disbursements	634,707	3,264	13,428	40,295	691,693
Depreciation	76,594	87,557	63,565	8,604	236,320
Other	87,957	45,487	24,900	104,872	263,216
Total Operating Disbursements	926,868	170,918	118,042	188,883	1,404,712
Net Operating Income	\$ 216,892	\$ 66,748	\$ (21,192)	\$ (32,495)	\$ 229,952
Non-Operating Receipts (Disbursements)					
Earnings on Investments	24,539	1,011	38	3,300	28,888
Special Assessments	-	-	29,389	-	29,389
Taxes	6,859	1,775	637	2,416	11,686
Interest Expense	(1,097)	(49,433)	(11,540)	(2,249)	(64,319)
Income (Loss) Before Transfers	247,193	20,101	(2,669)	(29,029)	235,597
Interfund Transfers In	-	128	53,733	331,785	385,646
Interfund Transfers (Out)	(746,903)	-	-	-	(746,903)
Change in Net Position	\$ (499,710)	\$ 20,229	\$ 51,064	\$ 302,757	\$ (125,660)
Net Position - January 1	1,693,526	624,451	891,722	(110,179)	3,099,521
Net Position - December 31	\$ 1,193,817	\$ 644,680	\$ 942,787	\$ 192,577	\$ 2,973,861

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, 2016

	Business-Type Activities - Enterprise Funds				
	Electric Fund	Water Fund	Sewer Fund	Other Funds	Total
Cash Flows from Operating Activities					
Receipts from Customers	\$ 1,137,042	\$ 237,666	\$ 96,665	\$ 156,388	\$ 1,627,761
Payments to Employees	(127,610)	(34,610)	(16,149)	(35,113)	(213,482)
Payments to Suppliers	(723,364)	(48,752)	(38,328)	(145,166)	(955,609)
Other Receipts	6,718	-	185	-	6,903
Total Cash Flows from Operating Activities	292,786	154,305	42,373	(23,891)	465,572
Cash Flows from Noncapital					
Financing Activities					
Transfers In	-	128	53,733	331,785	385,646
Taxes & Special Assessments	6,859	1,775	30,026	2,416	41,075
Transfers (Out)	(746,903)	-	-	-	(746,903)
(Inc.)/Decrease in Internal Balances	551,309	-	35,338	(290,711)	295,936
Total Cash Flows from Noncapital Financing Activities	(188,734)	1,902	119,096	43,490	(24,245)
Cash Flows from Capital and Related					
Financing Activities					
Interest on Debt	(1,097)	(49,433)	(11,540)	(2,249)	(64,319)
Purchases of Capital Assets	-	(16,371)	(5,030)	-	(21,402)
Inc./(Decrease) in Bonds Payable	(35,000)	(61,719)	(136,000)	-	(232,719)
Inc./(Decrease) in Notes Payable	-	(2,539)	-	(17,751)	(20,290)
Total Cash Flows from Capital and Related Financing Activities	(36,097)	(130,062)	(152,570)	(20,000)	(338,730)
Cash Flows From Investing Activities					
Investment in Certificate of Deposit	(10,000)	-	-	-	(10,000)
Earnings on Investments	24,539	1,011	38	3,300	28,888
Total Cash Flows From Investing Activities	14,539	1,011	38	3,300	18,888
Net Increase (Decrease) in Cash & Cash Equivalents	82,494	27,156	8,937	2,899	121,486
Cash and Cash Equivalents - January 1	126,886	259,521	4,809	13,554	404,771
Cash and Cash Equivalents - December 31	\$ 209,380	\$ 286,677	\$ 13,746	\$ 16,453	\$ 526,256
Reconciliation of Operating Income to Net					
Cash Provided by Operating Activities					
Operating Income (Loss)	216,892	66,748	(21,192)	(32,495)	229,952
Adjustments to Reconcile Operating Income					
to Net Cash Provided by Operating Activities					
Depreciation Expense	76,594	87,557	63,565	8,604	236,320
Inc./(Decrease) in Deposits Payable	(700)	-	-	-	(700)
Total Adjustments	\$ 75,894	\$ 87,557	\$ 63,565	\$ 8,604	\$ 235,620
Net Cash Provided/(Used) by Operating Activities	\$ 292,785	\$ 154,305	\$ 42,373	\$ (23,891)	\$ 465,572

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Financial Statements
December 31, 2016

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.

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.

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

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.

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 2016.

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, 2016, the City's carrying amount of deposits and CDs totaled \$1,651,186 and the bank balances totaled \$1,687,243. Of the bank balances, \$500,000 was covered by Federal

Depository Insurance. The remaining bank balances totaling \$1,187,243 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. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

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

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

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

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

As stated in Note 1 above, the City uses a modified cash basis of accounting, so the following NDPERS pension liabilities are not presented in the basic financial statements. If the City used the accrual or modified accrual basis of accounting, the following pension liabilities would be presented.

At December 31, 2016, the Employer reported a liability of \$183,078 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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 Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Employer's proportion was 0.018785 percent, which was a decrease of 0.004882 from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Employer recognized pension expense of \$32,534. At December 31, 2016, 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	\$ 2,750	\$ 1,695
Changes of assumptions	16,877	9,095
Net difference between projected and actual earnings on pension plan investments	25,542	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	57,169	29,762
*Employer contributions subsequent to the measurement date of June 30, 2016	8,344	-
Total	\$ 110,682	\$ 40,552

\$8,344 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, 2017.

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

Year ended December 31

2017	\$ 14,431
2018	14,431
2019	20,003
2020	15,493
2021	(2,572)
Thereafter	-
Total	\$ 61,786

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

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

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.60%
International Equity	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Estate	20%	5.24%
Cash Equivalents	1%	0.00%

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

Sensitivity of the 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	259,693	183,078	118,526

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

NOTE 6 LONG-TERM LIABILITIES

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

Governmental Activities	Balance 1/1/2016	Increases	Decreases	Balance 12/31/16	Due Within One Year
Special Assessments	\$ 45,000	\$ -	\$ (15,000)	\$ 30,000	\$ 15,000
Total Governmental Activities	\$ 45,000	\$ -	\$ (15,000)	\$ 30,000	\$ 15,000
Business-Type Activities					
Revenue Bonds	\$ 1,853,437	\$ -	\$ (232,719)	\$ 1,620,718	\$ 203,100
Other Debt	109,793	-	(20,366)	89,427	21,492
Total Business-Type Activities	\$ 1,963,230	\$ -	\$ (253,085)	\$ 1,710,145	\$ 224,592

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

\$30,000

Total special assessment bonds

\$30,000

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.

\$ 125,000

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.

0

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.

135,000

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.

365,718

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.

995,000

Total Enterprise Revenue Bonds

\$ 1,620,718

Governmental and business-type activities debt service requirements to maturity at December 31, 2016 are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Special Assessment		Revenue Bonds	
	Principal	Interest	Principal	Interest
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	41,303
2021	-	-	81,600	39,582
2022-2026	-	-	373,400	165,471
2027-2031	-	-	321,100	110,486
2032-2036	-	-	344,900	51,179
2037-2041	-	-	56,219	2,640
Total	\$ 30,000	\$ 1,651	\$ 1,620,719	\$ 547,727

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

\$54,210

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

35,217

Total other debt

\$89,427

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

Year Ending December 31	Other Debt	
	Principal	Interest
2017	20,900	2,850
2018	21,573	2,177
2019	20,062	1,482
2020	2,943	807
2021	3,031	718
2022-2026	16,577	2,173
2027-2031	4,342	130
Total	<u>\$ 89,427</u>	<u>\$ 10,337</u>

NOTE 8 CAPITAL ASSETS

The following are summaries of changes in capital assets, governmental activities, for the year ended December 31, 2016:

Governmental Activities	Balance Jan 1, 2016	Additions	(Dipsosals)	Balance Dec 31, 2016
Capital assets not being depreciated				
Construction in Progress	\$ -	\$ 148,298	\$ -	\$ 148,298
Total capital assets not being depreciated	-	148,298	-	148,298
Capital assets being depreciated				
Building & Improvements	\$ 1,210,391	\$ 53,168	\$ -	\$ 1,263,559
Infrastructure	3,274,915	-	-	3,274,915
Equipment	373,243	16,600	-	389,843
Total capital assets being depreciated	\$ 4,858,549	\$ 69,768	\$ -	\$ 4,928,317
Less: accumulated depreciation				
Buildings & Improvements	(426,446)	(32,854)	-	(459,300)
Infrastructure	(1,142,050)	(75,930)	-	(1,217,980)
Equipment	(301,922)	(13,121)	-	(315,043)
Total accumulated depreciation	\$(1,870,418)	\$ (121,905)	\$ -	\$(1,992,323)
Net capital assets being depreciated, Net	<u>2,988,131</u>	<u>(52,137)</u>	<u>-</u>	<u>2,935,994</u>
Governmental activities capital assets, Net	<u>\$ 2,988,131</u>	<u>\$ 96,161</u>	<u>\$ -</u>	<u>\$ 3,084,292</u>

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

Governmental Activities	
Public Service	\$ 121,453
Parks, Recreation, Cemetery	<u>452</u>
Total Depreciation Expense - Governmental Activities	<u><u>\$ 121,905</u></u>

The following are summaries of changes in capital assets, business-type activities, for the year ended December 31, 2016:

<u>Business-Type Activities</u>	<u>Balance Jan 1, 2016</u>	<u>Additions</u>	<u>(Disposals)</u>	<u>Balance Dec 31, 2016</u>
Non-depreciated assets				
Land	\$ -	\$ 17,045	\$ -	\$ 17,045
Construction in Progress	-	11,341	-	11,341
Total non-depreciated assets	<u>\$ -</u>	<u>\$ 28,386</u>	<u>\$ -</u>	<u>\$ 28,386</u>
Capital assets being depreciated				
Electric Utility	\$ 2,207,114	\$ -	\$ (2,000)	\$ 2,205,114
Water Utility	3,564,815	5,030	(15,045)	3,554,800
Sewer Utility	2,146,891	5,030	-	2,151,921
Golf Course	318,719	-	-	318,719
Total capital assets being depreciated	<u>\$ 8,237,538</u>	<u>\$ 10,060</u>	<u>\$ (17,045)</u>	<u>\$ 8,230,554</u>
Less: accumulated depreciation				
Electric Utility	\$(1,351,699)	\$ (76,594)	\$ -	\$(1,428,293)
Water Utility	(1,975,401)	(87,557)	-	(2,062,958)
Sewer Utility	(847,801)	(63,565)	-	(911,366)
Golf Course	(79,779)	(8,604)	-	(88,383)
Total accumulated depreciation	<u>\$(4,254,680)</u>	<u>\$ (236,320)</u>	<u>\$ -</u>	<u>\$(4,491,000)</u>
Total capital assets being depreciated, Net	<u>3,982,857</u>	<u>(226,260)</u>	<u>(17,045)</u>	<u>3,739,554</u>
Total Business-Type activities, Net	<u><u>\$ 3,982,857</u></u>	<u><u>\$ (197,874)</u></u>	<u><u>\$ (17,045)</u></u>	<u><u>\$ 3,767,938</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, 2016, negative overall cash balances existed in the sewer fund totaling \$51,514. 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 city share of specials fund and the sewer fund.

The 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:

Governmental Activities	January 1, 2016			December 31, 2016	
	Due (To) From Other Funds	Increase	Decrease	Due (To) From Other Funds	
Community Building Fund	(287,160)	-	287,160	-	-
City Share of Specials	(8,776)	-	8,776	-	-
Total Governmental Activities	\$ (295,936)	\$ -	\$ 295,936	\$ -	-
Business-Type Activities					
Electric Fund	\$ 602,824	51,514	(602,824)	\$ 51,514	-
Sewer	(16,177)	(51,514)	16,177	(51,514)	-
Golf Fund	(290,711)	-	290,711	-	-
Total Business Type Activities	\$ 295,936	\$ (0)	\$ (295,936)	\$ -	-

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	\$ 110,473	\$ (159,836)
Highway Fund	96,853	-
Community Building Fund	335,446	-
Sales Tax Fund	2,062	(19,240)
City Share of Specials	-	(71,423)
Library Fund	10,760	-
Swimming Pool Fund	32,770	-
Airport Authority Fund	4,840	-
Building Fund	861	-
Debt Service Fund	17,690	-
Electric Fund	-	(746,903)
Water	128	-
Sewer	53,733	-
Golf Course Fund	331,785	-
	<u>\$ 997,402</u>	<u>\$ (997,402)</u>

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

NOTE 15 SUBSEQUENT EVENTS

On March 3, 2017 the City borrowed \$48,600 from USDA Rural Development for library improvements. The loan carries an interest rate of 2.75% and will be repaid with monthly installments of \$199 over a 30 year period. Future principal and interest payments are as follows:

Year Ending December 31	USDA Rural Development	
	Principal	Interest
2017	796	995
2018	1,087	1,301
2019	1,117	1,271
2020	1,148	1,240
2021	1,180	1,208
2022-2026	6,414	5,526
2027-2031	7,358	4,582
2032-2036	8,441	3,499
2037-2041	9,684	2,256
2042-2046	11,110	830
2047-2051	264	1
Total	<u>\$ 48,600</u>	<u>\$ 22,708</u>

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, 2016

	<u>General Fund</u>		
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 71,853	\$ 57,249	\$ (14,604)
Licenses & Permits	9,310	11,788	2,478
Intergovernmental Sources	74,320	50,000	(24,320)
Earnings on Investments	1,000	487	(513)
Sale of Property	2,000	11,250	9,250
Other Sources	2,000	3,695	1,695
Total Receipts	160,483	134,469	(26,014)
Disbursements:			
General Government	90,877	85,864	5,013
Public Safety	27,820	25,502	2,318
Public Service	3,703	12,188	(8,485)
Total Disbursements	122,400	123,554	(1,154)
Excess Receipts over (under) Disbursements	38,083	10,914	(27,169)
Interfund Transfers In	176,283	110,473	(65,810)
Interfund Transfers (Out)	(214,366)	(159,836)	54,530
Net change in Fund Balances	\$ -	\$ (38,448)	\$ (38,448)
Fund Balance - January 1	98,200	98,200	
Fund Balance - December 31	\$ 98,200	\$ 59,751	

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, 2016

<u>Special Street Fund</u>			
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 6,621	\$ 6,145	\$ (476)
License and Permits	500	138	(362)
Intergovernmental Sources	61,245	48,670	(12,575)
Other Sources	21,700	14,883	(6,817)
Total Receipts	<u>90,066</u>	<u>69,836</u>	<u>(20,230)</u>
Disbursements:			
Public Service	187,051	166,690	20,361
Total Disbursements	<u>187,051</u>	<u>166,690</u>	<u>20,361</u>
Excess Receipts over (under) Disbursements	<u>(96,985)</u>	<u>(96,853)</u>	<u>132</u>
Interfund Transfers In	96,985	96,853	(132)
Net change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>
Fund Balance - January 1	-	-	
Fund Balance - December 31	<u><u>\$ -</u></u>	<u><u>\$ -</u></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 – Library Fund – Modified Cash Basis
December 31, 2016

	<u>Library</u>		
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 7,918	\$ 7,724	\$ (194)
Intergovernmental	-	122,029	122,029
Earnings on Investments	5	149	144
Other Sources	24,000	133,057	109,057
Total Receipts	31,923	262,959	231,036
Disbursements:			
Public Service	33,618	37,368	(3,750)
Capital Outlay	-	145,190	(145,190)
Total Disbursements	33,618	182,558	(148,940)
Excess Receipts over (under) Disbursements	(1,695)	80,401	82,096
Interfund Transfers In	2,199	10,760	8,561
Net change in Fund Balances	\$ 504	\$ 91,161	\$ 90,657
Fund Balance - January 1	(291,260)	29,502	
Fund Balance - December 31	\$ (290,756)	\$ 120,664	

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, 2016

	<u>Sales & Lodging Tax Funds</u>		
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 62,000	\$ 69,895	\$ 7,895
Earnings on Investments	1,500	2,366	866
Miscellaneous	200	1,946	1,746
Total Revenues	<u>63,700</u>	<u>74,207</u>	<u>10,507</u>
Disbursements:			
Economic Development	63,700	56,725	6,975
Capital Outlay	-	6,303	(6,303)
Total Disbursements	<u>63,700</u>	<u>63,028</u>	<u>672</u>
Excess Receipts over (under) Disbursements	<u>-</u>	<u>11,179</u>	<u>11,179</u>
Interfund Transfers In (Out)	-	(17,178)	(17,178)
Net change in Fund Balances	\$ -	\$ (5,999)	\$ (5,999)
Fund Balance - January 1	384,577	384,577	
Fund Balance - December 31	<u>\$ 384,577</u>	<u>\$ 378,578</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 – City Share of Specials – Modified Cash Basis
December 31, 2016

	<u>City Share of Specials</u>		
	Original & Final Budget	Actual	Variance
Receipts:			
Taxes	\$ 116,624	\$ 118,914	\$ 2,290
Earnings on Investments	50	43	(7)
Total Revenues	<u>116,674</u>	<u>118,957</u>	<u>2,283</u>
Disbursements:			
Special Assessments Paid	-	10,210	(10,210)
Total Disbursements	<u>-</u>	<u>10,210</u>	<u>(10,210)</u>
Excess Receipts over (under) Disbursements	<u>116,674</u>	<u>108,747</u>	<u>(7,927)</u>
Interfund Transfers In (Out)	(116,674)	(71,423)	45,251
Net change in Fund Balances	<u>\$ -</u>	<u>\$ 37,324</u>	<u>\$ 37,324</u>
Fund Balance - January 1	(8,776)	(8,776)	
Fund Balance - December 31	<u><u>\$ (8,776)</u></u>	<u><u>\$ 28,548</u></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*

Year Ended June 30	Employer's Proportion Of the Net Pension Liability (Asset)	Employer's Proportionate Share Of the Net Pension Liability (Asset)	Employer's Covered Employee Payroll	Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll	Plan Fiduciary Net Position As a % of the Total Pension Liability
2014	0.011978%	\$76,027	\$100,897	75.4%	77.70%
2015	0.023667%	\$160,932	\$210,845	76.3%	77.15%
2016	0.018785%	\$183,078	\$189,309	96.7%	70.46%

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

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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*

Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2014	\$7,184	\$7,184	\$0	\$100,897	7.12%
2015	\$16,015	\$15,641	\$374	\$210,845	7.60%
2016	\$13,706	\$13,708	(\$2)	\$189,309	7.24%

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

Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

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

CITY OF LAKOTA, NORTH DAKOTA
Notes to the Required Supplementary Information
December 31, 2016

NOTE 1 BUDGETS

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, 2016.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	122,391	123,554	(1,163)
Library	34,122	182,558	(148,436)
City Share of Special Assessments	-	10,210	(10,210)

No corrective action by the governing board is planned.

NOTE 2 PENSION PLAN

Changes of benefit terms.

There were no changes to benefits for the year ended June 30, 2016, the most recent measurement date.

Changes of assumptions.

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

SUPPLEMENTARY INFORMATION

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Fund Activity – Modified Cash Basis
December 31, 2016

Governmental Funds	Balance 01/01/16	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12/31/16
Major Funds							
General	\$ 98,200	\$ 123,219	\$ 110,473	\$ 11,250	\$ (159,836)	\$ (123,554)	\$ 59,751
Special Street	-	69,836	96,853	-	-	(166,690)	0
Library Fund	\$ 29,502	\$ 262,959	\$ 10,760	\$ -	\$ -	\$ (182,558)	\$ 120,664
Sales & Lodging Tax	384,577	74,207	2,062	-	(19,240)	(63,028)	378,578
City Share of Specials	(8,776)	118,957	-	-	(71,423)	(10,210)	28,548
Total Major Funds	\$ 503,503	\$ 649,179	\$ 220,149	\$ 11,250	\$ (250,499)	\$ (546,040)	\$ 587,541
Non-major Funds							
Community Center	(291,260)	60,204	335,446	-	-	(91,776)	12,614
Swimming Pool Fund	(75)	526	32,770	-	-	(33,345)	(125)
Cemetery Fund	46,567	8,613	-	-	-	(10,847)	44,333
Airport Authority Fund	2,834	57,418	4,840	-	-	(65,092)	-
Building Fund	49,416	50	861	-	-	(911)	49,416
Municipal Court	-	-	-	-	-	-	-
Emergency Fund	34,601	2,011	-	-	-	(2,200)	34,413
Advertising Fund	2,678	13	-	-	-	(375)	2,316
Economic Developemnt Fun	2,797	10,000	-	-	-	(10,000)	2,797
Debt Service Fund	-	-	17,690	-	-	(17,690)	-
Total Non-major Funds	\$ 756,364	\$ 1,244,138	\$ 624,578	\$ 11,250	\$ (341,162)	\$ (1,034,074)	\$ 145,764
Total Governmental Funds	\$ 1,259,866	\$ 1,893,317	\$ 844,726	\$ 22,500	\$ (591,661)	\$ (1,580,114)	\$ 733,305
Enterprise Funds							
Major Funds							
Electric Fund	\$ 1,693,526	\$ 1,143,760	\$ -	\$ 30,302	\$ (746,903)	\$ (926,868)	\$ 1,193,817
Water Fund	624,451	237,666	128	(46,647)	-	(170,918)	644,680
Sewer Fund	891,722	96,850	53,733	18,523	-	(118,042)	942,787
Total Major Funds	\$ 3,209,700	\$ 1,478,276	\$ 53,861	\$ 2,178	\$ (746,903)	\$ (1,215,828)	\$ 2,781,283
Non-major Funds							
Garbage Fund	13,554	107,731	-	-	-	(104,872)	16,414
Golf Fund	(123,733)	54,373	331,785	-	-	(86,261)	176,164
Total Non-major Funds	\$ (110,179)	\$ 162,104	\$ 331,785	\$ -	\$ -	\$ (191,133)	\$ 192,577
Total Enterprise Funds	\$ 3,099,522	\$ 1,640,380	\$ 385,646	\$ 2,178	\$ (746,903)	\$ (1,406,961)	\$ 2,973,861
Total Reporting Entity	\$ 4,359,388	\$ 3,533,696	\$ 1,230,372	\$ 24,678	\$ (1,338,564)	\$ (2,987,075)	\$ 3,707,165

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

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

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, 2016, 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 18, 2017.

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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider deficiency 2016-1 in the accompanying schedule of findings and responses to be material weaknesses.

CAVALIER

206 Dakota Street West
P.O. BOX 33
Cavalier, ND 58220
(701) 265-8644

PARK RIVER

1203 Park Street East
P.O. BOX 287
Park River, ND 58270
(701) 284-7616

LANGDON

817 3rd Street
FM Mall
Langdon, ND 58249
(701) 256-3559

STEPHEN

413 5th Street
P.O. BOX 45
Stephen, MN 56757
(218) 478-2880

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 item 2016-2.

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 18, 2017

CITY OF LAKOTA, NORTH DAKOTA
Schedule of Findings and Responses
December 31, 2016

FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING:

2016-1 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.

FINDINGS RELATED TO INTERNAL CONTROL OVER COMPLIANCE AND OTHER MATTERS:

2016-2 Transfers Out of Municipal Utility Funds

Condition:

The City of Lakota exceeded the statutory limits imposed on transfers out of municipal utilities funds to other governmental funds by \$416,724.

Effect:

No corrective action is anticipated.

Cause:

The Community Center fund and the Golf fund were operating at deficits during previous fiscal years. Over several years, \$577,871 was borrowed from the Electric fund to support these deficits. The governing board elected to forgive these inter-fund balances during 2016, which resulted in a transfer of cash. The total forgiveness exceeded statutory limits imposed on transfers out of municipal utility funds by \$416,724.

Criteria:

NDCC 40-33-12 states that a governing body may transfer from the surplus in a municipal utility fund to any other fund a total sum of not more than twenty percent of the gross receipts in the municipal utility for the fiscal year during which the transfers are made. The NDCC imposes this limit in order to prevent municipal utilities from increasing the prices for utility services in order to finance general operations of the city.

Recommendation:

We recommend that the City closely monitor loans and transfers between funds to ensure transfers are within statutory limits.

Client Response:

The governing board discussed the underlying reasons for the large inter-fund balances and considerable time was spent researching the options available to decrease and/or eliminate the inter-fund balances. The City's attorney and the state department were consulted before a decision was made. Ultimately the governing board felt it was in the public's best interest to remedy the balances by approving a single transfer.