

CITY OF LINCOLN

AUDIT REPORT

December 31, 2014

**CITY OF LINCOLN
LINCOLN, NORTH DAKOTA**

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For The Year Ended December 31, 2014

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CITY OF LINCOLN

LIST OF OFFICIALS

December 31, 2014

Mayor	Robert Johnston
Council Member	Karen Daly
Council Member	Toni Zainhofsky
Council Member	Steve Urlacher
Council Member	Ervin Fisher
City Auditor	Roberta Unterseher

INDEPENDENT AUDITOR'S REPORT

City Council
City of Lincoln
Lincoln, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Dakota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Dakota as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows – modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

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

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln, North Dakota's basic financial statements. The budgetary comparison information on pages 24 through 26, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016, on our consideration of the City of Lincoln, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Lincoln's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
November 7, 2016

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

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 2,162,753	\$ 1,481,139	\$ 3,643,892
Capital Assets			
Land	12,000	35,766	47,766
Land Improvements	13,693	7,388	21,081
Buildings	594,795	354,435	949,230
Furniture & Fixtures	29,339	-	29,339
Equipment & Vehicles	563,559	1,408,623	1,972,182
Infrastructure	2,025,106	217,090	2,242,196
Less: Accumulated Depreciation	<u>(833,572)</u>	<u>(1,604,700)</u>	<u>(2,438,272)</u>
Total Capital Assets	<u>2,404,920</u>	<u>418,602</u>	<u>2,823,522</u>
TOTAL ASSETS	4,567,673	1,899,741	6,467,414
LIABILITIES			
Long-Term Liabilities:			
Portion Due or Payable within One Year			
Special Assessment Bonds Payable	109,000	-	109,000
Portion Due or Payable after One Year			
Special Assessment Bonds Payable	483,000	-	483,000
Compensated Absences Payable	<u>7,486</u>	<u>3,813</u>	<u>11,299</u>
Total Liabilities	<u>599,486</u>	<u>3,813</u>	<u>603,299</u>
NET POSITION			
Net Investment in Capital Assets	1,812,920	418,602	2,231,522
Restricted for:			
Debt Service	142,997	-	142,997
Special Purposes	584,723	-	584,723
Unrestricted	<u>1,427,547</u>	<u>1,477,326</u>	<u>2,904,873</u>
Total Net Position	<u>\$ 3,968,187</u>	<u>\$ 1,895,928</u>	<u>\$ 5,864,115</u>

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2014

	Net (Expense) Revenue & Changes in Net Position				
	Program Revenues			Primary Government	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
<u>Functions/Programs</u>					
<u>Primary Government</u>					
<u>Governmental Activities</u>					
General Government	\$ 393,086	\$ 46,290	\$ -	\$ (346,796)	\$ (346,796)
Public Safety	325,449	29,031	-	(296,418)	(296,418)
Public Works and Streets	235,420	28,074	172,505	(34,841)	(34,841)
Culture and Recreation	8,252	-	8,939	687	687
Other	127,300	-	-	(127,300)	(127,300)
Interest on Long-Term Debt	15,660	-	-	(15,660)	(15,660)
Total Governmental Activities	<u>1,105,167</u>	<u>103,395</u>	<u>181,444</u>	<u>(820,328)</u>	<u>(820,328)</u>
<u>Business-type Activities</u>					
Water	703,146	676,454	-	-	\$ (26,692)
Sewer	253,682	234,019	-	-	(19,663)
Garbage	192,540	224,617	-	-	32,077
Total Business-type Activities	<u>1,149,368</u>	<u>1,135,090</u>	<u>-</u>	<u>-</u>	<u>(14,278)</u>
Total Primary Government	<u>\$ 2,254,535</u>	<u>\$ 1,238,485</u>	<u>\$ 181,444</u>	<u>\$ (820,328)</u>	<u>\$ (14,278)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purpose				241,693	-
Property Taxes, Levied for Special Reserve				91,365	-
Property Taxes, Levied for Capital Projects				16,612	-
Special Assessments				158,940	-
Grants and Contributions Not Restricted				278,007	50,000
Interest Income				5,376	17
Miscellaneous Revenue				106,684	19,158
Transfers				40,000	(40,000)
Total General Revenues				<u>938,677</u>	<u>29,175</u>
Change in Net Position				118,349	14,897
Net Position - Beginning of Year				<u>3,849,838</u>	<u>1,881,031</u>
Net Position - End of Year				<u>\$ 3,968,187</u>	<u>\$ 1,895,928</u>

The accompanying notes are an integral part of this statement.

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

	Major Funds				Total Governmental Funds
	General Fund	Highway Tax Distribution	Water Improvement District 2004-1	Other Governmental Funds	
ASSETS					
Cash and Cash Equivalents	\$ 481,053	\$ 949,594	\$ 51,636	\$ 680,470	\$ 2,162,753
Due From Other Funds	4,386	-	-	-	4,386
TOTAL ASSETS	<u>\$ 485,439</u>	<u>\$ 949,594</u>	<u>\$ 51,636</u>	<u>\$ 680,470</u>	<u>\$ 2,167,139</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due To Other Funds	\$ -	\$ -	\$ 4,386	\$ -	\$ 4,386
Fund Balances:					
Restricted for:					
Highway	-	949,594	-	-	949,594
Debt Service	-	-	47,250	95,747	142,997
Assigned	-	-	-	584,723	584,723
Unassigned	485,439	-	-	-	485,439
Total Fund Balances	<u>485,439</u>	<u>949,594</u>	<u>47,250</u>	<u>680,470</u>	<u>2,162,753</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 485,439</u>	<u>\$ 949,594</u>	<u>\$ 51,636</u>	<u>\$ 680,470</u>	<u>\$ 2,167,139</u>

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position - Modified Cash Basis - Governmental Funds
 December 31, 2014

Total Fund Balances for Governmental Funds		\$ 2,162,753
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Total net position reported for governmental activities in the statement of net position is different because:

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

Cost of Capital Assets	\$ 3,238,492	
Less Accumulated Depreciation	<u>(833,572)</u>	
Net Capital Assets		2,404,920

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net position.

Balances at December 31, 2014 are:

Special Assessment Bonds Payable	(592,000)	
Compensated Absences	<u>(7,486)</u>	
Total Long-Term Liabilities		<u>(599,486)</u>

Total Net Position of Governmental Activities		\$ <u>3,968,187</u>
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The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2014

	Major Funds					
	General Fund	Highway Tax Distribution	Water Improvement		Other Governmental Funds	Total Governmental Funds
			District	2004-1		
REVENUES						
Taxes	\$ 241,693	\$ -	\$ -	\$ 107,977	\$ 349,670	
Special Assessments	-	-	31,860	127,080	158,940	
Licenses, Permits, and Fees	46,290	-	-	-	46,290	
Intergovernmental	278,007	172,505	-	8,939	459,451	
Charges for Services	-	-	-	28,074	28,074	
Fines, Forfeitures, and Penalties	28,971	-	-	60	29,031	
Interest	4,586	-	362	428	5,376	
Miscellaneous	9,788	49,143	-	47,753	106,684	
TOTAL REVENUES	609,335	221,648	32,222	320,311	1,183,516	
EXPENDITURES						
Current:						
General Government	299,912	-	-	77,791	377,703	
Public Safety	315,570	-	-	33,093	348,663	
Public Works	-	138,027	-	26,944	164,971	
Culture and Recreation	-	-	-	8,252	8,252	
Other	-	-	920	126,380	127,300	
Capital Outlay	-	-	-	-	-	
Debt Service:						
Principal	-	-	14,000	105,000	119,000	
Interest	-	-	4,775	10,885	15,660	
TOTAL EXPENDITURES	615,482	138,027	19,695	388,345	1,161,549	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,147)	83,621	12,527	(68,034)	21,967	
OTHER FINANCING SOURCES (USES)						
Transfers In	-	-	18,000	51,424	69,424	
Transfers (Out)	(29,424)	-	-	-	(29,424)	
Total Other Financing Sources and (Uses)	(29,424)	-	18,000	51,424	40,000	
NET CHANGE IN FUND BALANCES	(35,571)	83,621	30,527	(16,610)	61,967	
Fund Balances - January 1, 2014	521,010	865,973	16,723	697,080	2,100,786	
FUND BALANCES - DECEMBER 31, 2014	\$ 485,439	\$ 949,594	\$ 47,250	\$ 680,470	\$ 2,162,753	

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN

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

Net change in fund balances - total governmental funds \$ 61,967

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

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

Capital assets purchased in the current period	\$ 54,812	
Depreciation expense of capital assets reported	<u>(118,280)</u>	(63,468)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued compensated absences		850
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The proceeds of debt issuances are reported as financing resources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt issued and repayment of debt made during the year.

Repayment of Debt		<u>119,000</u>
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Change in net position of governmental activities		<u>\$ 118,349</u>
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CITY OF LINCOLN
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2014

	Major Enterprise Funds			Totals
	Water	Sewer	Garbage	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 689,839	\$ 728,735	\$ 62,565	\$ 1,481,139
Total Current Assets	689,839	728,735	62,565	1,481,139
Noncurrent Assets:				
Capital Assets:				
Land	10,766	25,000	-	35,766
Land Improvements	-	-	7,388	7,388
Buildings	354,435	-	-	354,435
Equipment & Vehicles	1,366,329	29,184	13,110	1,408,623
Infrastructure	-	217,090	-	217,090
Less: Accumulated Depreciation	(1,532,048)	(66,294)	(6,358)	(1,604,700)
Net Capital Assets	199,482	204,980	14,140	418,602
TOTAL ASSETS	889,321	933,715	76,705	1,899,741
LIABILITIES				
Current Liabilities:				
Compensated Absences	3,250	338	225	3,813
Total Current Liabilities	3,250	338	225	3,813
NET POSITION				
Net Investment in Capital Assets	199,482	204,980	14,140	418,602
Unrestricted	686,589	728,397	62,340	1,477,326
Total Net Position	\$ 886,071	\$ 933,377	\$ 76,480	\$ 1,895,928

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2014

	Major Enterprise Funds			Total
	Water	Sewer	Garbage	
OPERATING REVENUES:				
Charges for Services	\$ 676,454	\$ 234,019	\$ 224,617	\$ 1,135,090
OPERATING EXPENSES:				
Salaries	75,357	37,377	27,027	139,761
Health Insurance	6,653	3,326	2,439	12,418
Insurance & Retirement	(280)	-	-	(280)
Utilities	9,659	3,481	-	13,140
Supplies	24,959	7,257	5,349	37,565
Maintenance	172,962	163,964	372	337,298
Garbage Contract	-	-	153,924	153,924
Water Contract	326,749	-	-	326,749
Miscellaneous	12,345	27,273	2,427	42,045
Depreciation Expense	74,296	10,625	1,002	85,923
TOTAL OPERATING EXPENSES	<u>702,700</u>	<u>253,303</u>	<u>192,540</u>	<u>1,148,543</u>
INCOME (LOSS) FROM OPERATIONS	(26,246)	(19,284)	32,077	(13,453)
NON-OPERATING REVENUES (EXPENSES):				
Federal Grants Revenue	-	50,000	-	50,000
Interest Income	17	-	-	17
Miscellaneous Revenue	18,608	350	200	19,158
Professional Fees	(446)	(379)	-	(825)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>18,179</u>	<u>49,971</u>	<u>200</u>	<u>68,350</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(8,067)	30,687	32,277	54,897
Transfers In (Out)	<u>(18,000)</u>	<u>-</u>	<u>(22,000)</u>	<u>(40,000)</u>
CHANGE IN NET POSITION	(26,067)	30,687	10,277	14,897
Net Position - January 1, 2014	<u>912,138</u>	<u>902,690</u>	<u>66,203</u>	<u>1,881,031</u>
NET POSITION - DECEMBER 31, 2014	<u>\$ 886,071</u>	<u>\$ 933,377</u>	<u>\$ 76,480</u>	<u>\$ 1,895,928</u>

The accompanying notes are an integral part of this statement.

CITY OF LINCON
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2014

	Major Enterprise Funds			
	Water	Sewer	Garbage	Total
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 676,454	\$ 234,019	\$ 224,617	\$ 1,135,090
Payments to Suppliers	(546,674)	(201,975)	(162,072)	(910,721)
Payments to Employees	(81,127)	(40,703)	(29,466)	(151,296)
Net Cash Provided (Used) by Operating Activities	<u>48,653</u>	<u>(8,659)</u>	<u>33,079</u>	<u>73,073</u>
<u>Cash Flows from Noncapital Financing Activities:</u>				
Miscellaneous Revenue	18,608	350	200	19,158
Federal Grants Revenue	-	50,000	-	50,000
Transfers In (Out)	(18,000)	-	(22,000)	(40,000)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>608</u>	<u>50,350</u>	<u>(21,800)</u>	<u>29,158</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Engineering, Construction and Professional Fees	(446)	(379)	-	(825)
Capital Assets Purchased	-	(5,432)	-	(5,432)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(446)</u>	<u>(5,811)</u>	<u>-</u>	<u>(6,257)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest Income	17	-	-	17
Net Cash Provided by Investing Activities	<u>17</u>	<u>-</u>	<u>-</u>	<u>17</u>
Net Increase (Decrease) in Cash and Cash Equivalents	48,832	35,880	11,279	95,991
Cash and Cash Equivalents, January 1	<u>641,007</u>	<u>692,855</u>	<u>51,286</u>	<u>1,385,148</u>
Cash and Cash Equivalents, December 31	<u>\$ 689,839</u>	<u>\$ 728,735</u>	<u>\$ 62,565</u>	<u>\$ 1,481,139</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (26,246)	\$ (19,284)	\$ 32,077	\$ (13,453)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>				
Depreciation Expense	74,296	10,625	1,002	85,923
Change in assets and liabilities:				
Compensated Absences	603	-	-	603
Net Cash Provided (Used) by Operating Activities	<u>\$ 48,653</u>	<u>\$ (8,659)</u>	<u>\$ 33,079</u>	<u>\$ 73,073</u>

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the City of Lincoln, 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 City implemented the new reporting model, GASB Statement No. 34, beginning January 1, 2004. The more significant of the government's accounting policies are described below.

A. Reporting Entity

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

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

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, there are no component units of the City of Lincoln.

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are supported by taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

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

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Highway Tax Distribution: This fund accounts for resources used for street repair and maintenance.

Water Improvement District 2004-1: This fund accounts for the collection of revenues and payment of debt for the Water Improvement District 2004-1 construction project.

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

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

Sewer Fund: This fund accounts for the activity of the Sewer Department. This department operates the waste water collection system in the City of Lincoln.

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

C. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

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

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

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 with a provision for depreciation in the government-wide statements, and proprietary fund statements. This 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.

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

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. Deposits

In accordance with North Dakota statutes, the City maintains deposits at depository banks designated by the governing board which are members of the Federal Reserve System.

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

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

The bank balance of these deposits at December 31, 2014 was \$3,684,381; the carrying balances at this date were \$3,643,892. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$3,434,381 was collateralized with securities held by the pledging financial institutions' agent but not in the City's name.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

E. Capital Assets

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

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

Land Improvements	25 years
Buildings	50 years
Infrastructure	20-50 years
Equipment & Vehicles	7-25 years

F. Compensated Absences

Each continuous full-time employee is granted vacation benefits from 40 hours to 176 hours per year based on years of service. An employee must complete the first twelve months of continuous service prior to taking vacation. The maximum number of vacation hours that can be carried over at year-end is the total sum of hours earned that year to be used the following year. If an employee, through no fault of his/her own, cannot take vacation prior to December 31st, the department head and regulating Commissioner may approve a carry-over in excess of the maximum allowable carry-over pursuant to a written request. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month (96 hours per year) and up to 120 days (960 hours) of sick leave is the maximum accumulation. Upon termination, employees are not paid for any sick leave accumulated, but are paid for all vacation earned up to the date of separation. Vested or accumulated leave for governmental funds is reported in the statement of net position. Vested or accumulated leave for proprietary fund operations are accounted for in those funds.

G. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. Encumbrance Accounting

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

I. Interfund Transactions

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

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

J. Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city council removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by the City’s “intent” to be used for special purposes, but are neither restricted nor committed. The city council has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

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

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 2 CASH AND CASH EQUIVALENTS

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

NOTE 3 PROPERTY TAXES

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

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

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

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2014:

<u>Governmental Activities:</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Total Capital Assets Not Being Depreciated	12,000	-	-	12,000
<i>Capital assets, being depreciated:</i>				
Land Improvements	13,693	-	-	13,693
Buildings	594,795	-	-	594,795
Furniture & Fixtures	29,339	-	-	29,339
Equipment & Vehicles	508,747	54,812	-	563,559
Infrastructure	2,025,106	-	-	2,025,106
Total Capital Assets, Being Depreciated	3,171,680	54,812	-	3,226,492
<i>Less accumulated depreciation for:</i>				
Land Improvements	2,338	1,007	-	3,345
Buildings	98,376	11,896	-	110,272
Furniture & Fixtures	14,735	3,493	-	18,228
Infrastructure	345,184	43,238	-	388,422
Equipment & Vehicles	254,659	58,646	-	313,305
Total Accumulated Depreciation	715,292	118,280	-	833,572
<i>Total Capital Assets Being Depreciated, Net</i>	2,456,388	(63,468)	-	2,392,920
Governmental Activities Capital Assets, Net	<u>\$ 2,468,388</u>	<u>\$ (63,468)</u>	<u>\$ -</u>	<u>\$ 2,404,920</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 4 CAPITAL ASSETS – CONTINUED

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

<u>Governmental Activities:</u>	<u>2014</u>
General Government	\$ 16,233
Public Works and Streets	88,869
Public Safety	13,178
Total Depreciation Expense	<u>\$ 118,280</u>

<u>Business-type Activities:</u>	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
<i>Capital assets not being depreciated:</i>				
Land	\$ 35,766	\$ -	\$ -	\$ 35,766
Total Capital Assets Not Being Depreciated	35,766	-	-	35,766
<i>Capital assets, being depreciated:</i>				
Land Improvements	7,388	-	-	7,388
Buildings	354,435	-	-	354,435
Equipment & Vehicles	1,403,191	5,432	-	1,408,623
Infrastructure	217,090	-	-	217,090
Total Capital Assets, Being Depreciated	1,982,104	5,432	-	1,987,536
<i>Less accumulated depreciation for:</i>				
Land Improvements	2,711	296	-	3,007
Buildings	228,487	7,089	-	235,576
Infrastructure	35,153	9,488	-	44,641
Equipment & Vehicles	1,252,426	69,050	-	1,321,476
Total Accumulated Depreciation	1,518,777	85,923	-	1,604,700
Total Capital Assets Being Depreciated, Net	463,327	(80,491)	-	382,836
Business-type Activities Capital Assets, Net	<u>\$ 499,093</u>	<u>\$ (80,491)</u>	<u>\$ -</u>	<u>\$ 418,602</u>

NOTE 5 LEASES

Operating Leases

The City leases a copier under a noncancelable operating lease. Total costs for this lease were \$3,552 for the year ended December 31, 2014. The lease was renewed in July 2013 and the estimated future lease payments for the years ended December 31, 2015, 2016, and 2017 the estimated future lease payments are \$3,552. The estimated future lease payments for the year ended December 31, 2018 are \$1,776.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 6 LONG-TERM LIABILITIES

During the year ended December 31, 2014, the following changes occurred in long-term liabilities of the City:

PRIMARY GOVERNMENT

Governmental Activities:	Balance January 1	Additions	Retirements	Balance December 31	Due Within One Year
Special Assessment Bonds	\$ 711,000	\$ -	\$ (119,000)	\$ 592,000	\$ 109,000
Compensated Absences*	8,336	-	(850)	7,486	-
Total Governmental Activities	\$ 719,336	\$ -	\$ (119,850)	\$ 599,486	\$ 109,000

Business-type Activities:	Balance January 1	Additions	Retirements	Balance December 31	Due Within One Year
Compensated Absences*	\$ 3,210	\$ 603	-	\$ 3,813	-

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

Governmental Activities:

Special Assessment Bonds:

\$365,000 Water Storage Reservoir Revenue Bonds, due in annual installments of \$12,000 to \$18,000 through September 2025; interest at 2.5%	\$ 177,000
\$445,000 Refunding Improvement Bonds of 2012, due in annual installments of \$80,000 to \$100,000 through May 2017; interest at 0.60% to 1.10%	250,000
\$200,000 General Obligation Bonds, Series 2008, due in annual installments of \$5,000 to \$15,000 through May 2028; interest at 4.25% to 5.00%	<u>165,000</u>
Total Governmental Activities Debt	<u>\$ 592,000</u>

The annual requirements to amortize the outstanding governmental activities debt are as follows:

Year Ending December 31	Principal	Interest	Total
2015	109,000	14,132	123,132
2016	109,000	12,423	121,423
2017	105,000	10,740	115,740
2018	25,000	9,500	34,500
2019	26,000	8,700	34,700
2020-2024	140,000	30,631	170,631
2025-2028	78,000	6,450	84,450
TOTAL	<u>\$ 592,000</u>	<u>\$ 92,576</u>	<u>\$ 684,576</u>

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 7 RISK MANAGEMENT

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

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

The City of Lincoln also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Lincoln pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of two million dollars per occurrence during a 12 month period. That State Bonding Fund currently provides the City of Lincoln with blanket fidelity bond coverage in the amount of \$250,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Lincoln has workers compensation with the North Dakota Workforce Safety. The City pays for a single health policy for all full time employees. The employee may have the difference for a family policy deducted from their paycheck if they choose to have a family policy.

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

NOTE 8 PENSION PLAN

The City of Lincoln participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the City of Lincoln. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employees' 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 employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 8 PENSION PLAN – CONTINUED

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This statute requires that 7% of the participant’s salary be contributed to the plan by either the employee or by the employer under a “salary reduction” agreement. The City of Lincoln has implemented a salary reduction agreement and is currently contributing 0.50% of the employees share. The City of Lincoln is required to contribute 7.12% of each participant’s salary as the employer’s share. In addition to the 7.12% employer contribution the employer is required to contribute 1.14% of each participating employee’s gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The City of Lincoln’s required and actual contributions to NDPERS for the fiscal years ended December 31, 2014, 2013, and 2012 were \$31,132, \$23,974, and \$18,468, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1657, Bismarck, North Dakota 58502-1657.

NOTE 9 INTERFUND TRANSFERS

At December 31, 2014, fund transfers consisted of the following:

<u>Funds</u>	<u>Transfer In</u>	<u>Transfer Out</u>	
Governmental Funds:			
Major			
General		\$ 14,424	Transfer funds from General fund to Wheatland Hills fund
General		\$ 15,000	Transfer funds for vehicle purchase
Non-Major			
Wheatland Hills	14,424		Transfer funds to Wheatland Hills fund from General fund
Emergency	22,000		Transfer excess funds from Garbage fund
Water Bond	18,000		Transfer from Water to make loan payment
Police Vehicle Replacement	15,000		Transfer from General to purchase vehicles
Business-type Funds:			
Major			
Water		18,000	Transfer to Water Bond for loan payment
Garbage		22,000	Transfer excess funds to Emergency
	<u>\$ 69,424</u>	<u>\$ 69,424</u>	

NOTE 10 INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2014, interfund receivables and payables totaled \$4,386 due to the Water Improvement District 2004-1 owing the General Fund for a loan given by the General Fund in 2013 to help pay off the Water Improvement District 2004-1 long-term debt early. This was not repaid in 2014, but is expected to be repaid in 2015.

NOTE 11 EXPENDITURES IN EXCESS OF BUDGET

For the year ended December 31, 2014, the general fund was expended in excess of budget. No remedial action is anticipated by the City regarding these excess expenditures because revenues exceeded budget projections.

CITY OF LINCOLN
Notes to the Financial Statements
December 31, 2014

NOTE 12 FUND BALANCES

At December 31, 2014, a summary of the governmental fund balance classifications are as follows:

	General Fund	Highway Tax Distribution	Water Improvement District 2004-1	Other Governmental Funds	Total
Restricted					
Debt Service	\$ -	\$ -	\$ 47,250	\$ 95,747	\$ 142,997
Highway	-	949,594	-	-	949,594
Assigned					
Street Improvement	-	-	-	103,208	103,208
Building	-	-	-	47,114	47,114
Wheatland Hills	-	-	-	12,297	12,297
N. Lincoln 2nd Phase	-	-	-	3,198	3,198
East Lincoln 5th	-	-	-	317	317
Rents	-	-	-	51,569	51,569
Lincoln School	-	-	-	7,414	7,414
Dakota Breeze - Brendel	-	-	-	3,815	3,815
Lift Station	-	-	-	3,378	3,378
Silverleaf	-	-	-	23,750	23,750
Social Security	-	-	-	26,149	26,149
Planning	-	-	-	56,261	56,261
Employee Pensions	-	-	-	13,742	13,742
Insurance	-	-	-	53,647	53,647
Forestry	-	-	-	33,408	33,408
Police Vehicle Replacement	-	-	-	43,515	43,515
Street Lights	-	-	-	11,941	11,941
Emergency	-	-	-	90,000	90,000
Unassigned	485,439	-	-	-	485,439
	<u>\$ 485,439</u>	<u>\$ 949,594</u>	<u>\$ 47,250</u>	<u>\$ 680,470</u>	<u>\$ 2,162,753</u>

SUPPLEMENTARY INFORMATION

CITY OF LINCOLN
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2014

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	Actual (Budgetary Basis)	
REVENUES				
Taxes	\$ 270,616	\$ 270,616	\$ 241,693	\$ (28,923)
Licenses, Permits, and Fees	38,700	38,700	46,290	7,590
Intergovernmental	239,000	239,000	278,007	39,007
Fines, Forfeitures, and Penalties	15,100	15,100	28,971	13,871
Interest	2,500	2,500	4,586	2,086
Miscellaneous	600	600	9,788	9,188
TOTAL REVENUES	<u>566,516</u>	<u>566,516</u>	<u>609,335</u>	<u>42,819</u>
EXPENDITURES				
Current:				
General Government	230,027	230,033	299,912	(69,879)
Public Safety	<u>350,856</u>	<u>350,856</u>	<u>315,570</u>	<u>35,286</u>
TOTAL EXPENDITURES	<u>580,883</u>	<u>580,889</u>	<u>615,482</u>	<u>(34,593)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,367)	(14,373)	(6,147)	8,226
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(29,424)</u>	<u>(29,424)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(29,424)</u>	<u>(29,424)</u>
NET CHANGE IN FUND BALANCES	(14,367)	(14,373)	(35,571)	(21,198)
Fund Balances - January 1, 2014	<u>521,010</u>	<u>521,010</u>	<u>521,010</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2014	<u>\$ 506,643</u>	<u>\$ 506,637</u>	<u>\$ 485,439</u>	<u>\$ (21,198)</u>

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
 Budgetary Comparison Schedule - Modified Cash Basis
 Highway Tax Distribution Fund
 For the year ended December 31, 2014

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual (Budgetary Basis)	
REVENUES				
Intergovernmental	\$ 230,000	\$ 230,000	\$ 172,505	\$ (57,495)
Miscellaneous	-	-	49,143	49,143
TOTAL REVENUES	230,000	230,000	221,648	(8,352)
EXPENDITURES				
Current:				
Public Works and Streets	234,481	234,481	138,027	96,454
TOTAL EXPENDITURES	234,481	234,481	138,027	96,454
NET CHANGE IN FUND BALANCES	(4,481)	(4,481)	83,621	88,102
Fund Balances - January 1, 2014	865,973	865,973	865,973	-
FUND BALANCES - DECEMBER 31, 2014	\$ 861,492	\$ 861,492	\$ 949,594	\$ 88,102

The accompanying notes are an integral part of this statement.

CITY OF LINCOLN
Notes to Supplementary Information
December 31, 2014

NOTE 1 BUDGETS

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

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

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a breakdown of the estimated revenues and appropriations.
- The City holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the City may amend the budget during the year for any revenues and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the governing board and the approval must be noted in the official proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

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

Governing Board
City of Lincoln
Lincoln, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, North Dakota as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Lincoln's basic financial statements and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2014-001 through 2014-003 described in the accompanying schedule of findings and responses to be material weaknesses.

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

Compliance and Other Matters

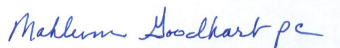
As part of obtaining reasonable assurance about whether the City of Lincoln’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 as item 2014-004.

City of Lincoln, North Dakota’s Response to Findings

The City of Lincoln, North Dakota’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Lincoln’s responses were 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.



Mahlum Goodhart, PC
Mandan, North Dakota
November 7, 2016

CITY OF LINCOLN
Schedule of Findings
For the Year Ended December 31, 2014

I. FINDINGS RELATED TO FINANCIAL STATEMENTS

Material Weaknesses

Finding 2014-001: Segregation of Duties

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

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

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

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

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

Management Response – The City is aware of the condition and will add controls where feasible.

Finding 2014-002: Preparation of Financial Statements

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

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

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

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

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

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

CITY OF LINCOLN
Schedule of Findings
For the Year Ended December 31, 2014

Finding 2014-003: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements.

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

Cause – The depreciation schedule is being worked on to be properly maintained; however, related journal entries are not being made for depreciation.

Effect – The number of journal entries made has a material effect on the financial statements.

Recommendation – Management should make sure that all financial transactions are recorded throughout the year. All general ledger accounts should be reviewed monthly for adequacy and accuracy. The following was a specific issue that we encountered during the audit that should be addressed:

- The City’s capital asset records are being worked on to be accurately maintained; however, depreciation is not being recorded. We recommend the City review their capital asset records to ensure all capital assets, including infrastructure, are included and being depreciated correctly according to the City’s capitalization policy.

Management Response – The City will continue to work to maintain better asset records. The City will work with the auditors to develop a schedule of assets and will have the auditors assist in calculating depreciation.

II. FINDINGS RELATED TO COMPLIANCE

Finding 2014-004: Pledged Securities

Condition – The City Council reviewed their pledges of securities only once during the year.

Criteria – North Dakota Century Code states pledges of securities should be reviewed by the City Council semi-annually.

Cause – Pledges of securities were not reviewed by the City Council semi-annually.

Effect – The City Council was not aware of the requirement and therefore, pledges of securities were not reviewed by the City Council semi-annually.

Recommendation – We recommend that the City Auditor and City Council review their pledged securities in comparison to their cash balances twice per year to insure compliance with the North Dakota Century Code.

Management Response – We will make sure that the City Council approves the pledges of securities semi-annually as required by state law.