

**CITY OF MEDORA
MEDORA, NORTH DAKOTA**

AUDIT REPORT

**EXAMINATION FOR THE FISCAL
YEAR ENDED DECEMBER 31, 2015**

James J. Wosepka, PC

CERTIFIED PUBLIC ACCOUNTANT

LICENSED IN NORTH DAKOTA AND MONTANA

**BEACH, NORTH DAKOTA
BAKER, MONTANA**

**CITY OF MEDORA
MEDORA, NORTH DAKOTA**

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City of Medora
Management's Discussion and Analysis
December 31, 2015

The discussion and analysis is intended to be an easily readable analysis of the City of Medora's financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

Aside from the Management's Discussion and Analysis (MD&A), this report consists of government-wide statements, fund financial statements, notes to the financial statements and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire, public works, outdoor recreation, and general government administration. The business-type activities include water, sewer and refuse. These government wide statements are intended to be reported in a manner to emulate private business in that all activities are consolidated into a total for the City.

Basic Financial Statements

The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents an overview of the assets the community owns, the amounts restricted for specific purposes and unrestricted amounts. The governmental activities reflect capital assets including infrastructure and long-term liabilities. Also, the governmental activities are reported on an accrual basis for accounting.

The Statement of Activities focuses on gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds and proprietary funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are reported in their own column and the remaining funds are combined into the column titled "Other Government Funds." A budgetary comparison is presented for the governmental funds for which a budget is legally adopted. Statements for the City's proprietary funds follow the governmental funds and include net position, revenue expenses and changes in net assets and cash flow.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

The MD&A is intended to explain significant changes in financial position and difference in operations between current and prior years.

City as a Whole

Government-wide Financial Statements. 2014 and 2015 are reported.

A condensed version of the Statement of Net Assets/Position at December 31, 2014 and 2015 follows:

| | <u>Statement of Net Position</u> | |
|----------------------------------|----------------------------------|--------------------|
| <u>Assets</u> | <u>2014</u> | <u>2015</u> |
| Cash | \$5,641,648 | \$6,077,658 |
| Receivables | 4,322 | 8,184 |
| Capital Assets, no depr. | 776,769 | 1,184,979 |
| Capital Assets, net | <u>1,652,002</u> | <u>2,501,788</u> |
| Total Assets | \$8,074,741 | \$9,772,609 |
| | | |
| <u>Liabilities</u> | | |
| Due within one year | 115,000 | 125,000 |
| Noncurrent liabilities | <u>156,236</u> | <u>222,893</u> |
| Total Liabilities | \$ 271,236 | \$347,893 |
| | | |
| <u>Net Position</u> | | |
| Net Investment in Capital Assets | \$2,428,771 | \$3,338,874 |
| Restricted | 204,407 | 252,233 |
| Unrestricted | <u>5,170,327</u> | <u>5,833,609</u> |
| Total Net Position | \$7,803,505 | \$9,424,716 |

A condensed version of the Statement of Activities follows:

| Statement of Activities | | |
|--------------------------------|---------------------------|---------------------------|
| <u>Revenues</u> | <u>2014</u> | <u>2015</u> |
| Charges for service | \$306,087 | \$307,446 |
| Grant | 580,857 | 1,202,750 |
| Property Taxes | 36,600 | 37,243 |
| Licenses & Permits | 9,777 | 7,882 |
| Federal & State Revenues | 2,357,926 | 1,757,865 |
| Investment Earnings | 1,483 | 1,601 |
| Miscellaneous | 24,883 | 8,012 |
| Transfers | <u>0</u> | <u>0</u> |
| Total Revenue | \$3,317,613 | \$3,322,799 |
| | | |
| Expenditures | | |
| General Government | 1,137,341 | 491,079 |
| Public Safety | 410,118 | 352,570 |
| Public Works | 42,824 | 1,076 |
| Cultural & Recreation | 36,755 | 366,001 |
| Business-type Activities | <u>247,325</u> | <u>279,284</u> |
| Total Expenditures | \$1,874,363 | \$1,490,010 |
| | | |
| Change in Net Position | <u>\$1,443,250</u> | <u>\$1,832,789</u> |

Governmental Activities

The City collected governmental revenues of \$3,152,692 in 2014. Governmental revenues of \$3,076,146 were collected in 2015.

Business Type Activities

The City of Medora receives water from Southwest Water Authority. 2015 Medora water rates are \$14.00 per first 2,000 gallons plus \$4.00 per thousand after the first 2,000 gallons. Sewer rates are \$3.50 for residential, \$6.50 for low-commercial and \$65.00 for high-volume commercial. Cable is \$15.00 or \$.50 per room per day for motels. The City charges \$16.00 for residential, \$53.00 for low-volume commercial, and \$159.00 for high-volume commercial garbage rates in 2015. This service is contracted with the Theodore Roosevelt Medora Foundation.

After being closed in 2014 for repairs, the pool was able to open for the summer of 2015. Revenues for 2015 were \$13,184 which was \$3,234 more than 2013.

The City owns two single-family homes in Medora for City employee housing. Both homes were occupied in 2015. Rent has remained at \$450/month and each tenant is responsible for utilities. The City owns a lot at 660 Doc Hubbard Drive and the City's FEMA trailer is parked there for a seasonal employee if needed. The City also owns a law enforcement trailer which is located at 3351 Pool Drive. This trailer was occupied by the seasonal officer for part of 2015 and no rent was charged. The trailer became occupied by a full-time police officer later in the year and monthly rent is \$250.

The Medora Community Center has several rooms which were rented in 2015. These rooms were primarily rented for weddings, conferences, meetings, and family reunions. With the decline in oil activity, the major revenue source of MBI renting this facility for training ceased in 2015.

Budgetary Highlights

In 2015, The City General Fund received \$664,053 more in revenues than what was budgeted. This increase is mostly attributed to Oil & Gas Production Tax and Surge Funding. The City General Fund expended \$229,337 less than appropriated. The City of Medora has also continued to see an increase in sales tax revenue. These funds are used for City infrastructure. A \$440,000 Energy Impact Grant was received for the new water storage tank. The additional \$151,000 of expense for this project came out of the \$700,000 of oil and gas surge funding the city received. The paved driveway to the new fire hall cost \$75,336 and was paid for with surge funding. Sales tax revenue was used to pay the \$117,945 for a new front end loader. This came in nearly \$20,000 below the budgeted amount. The total expense for the swimming pool repairs (2014 & 2015) were \$186,083.91. The ND Parks and Rec Grant funding in the amount of \$62,750 was received in 2015 to go toward this project. \$479,414 of expense was paid out of the sales tax fund and the surge funding in 2015 toward the First Street South and Forcemain Relocation project.

Capital Assets and Debt Administration

Capital Assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of \$5,000 or more. At year end net capital assets in the Governmental funds was \$3,449,969. The net amount of capital assets in the proprietary funds was \$236,798. Government wide net assets, less depreciation, were \$3,686,767. Significant capital asset activity during the year includes the addition of a new water storage tank on the east end of Medora. This tank took the city's water storage facility from 50,000 gallons to 200,000 gallons. Rehabilitation to the city swimming pool was completed in 2015. A new front end loader was purchased for the Public Works Department. A pavement driveway was installed at the new fire hall. Also, a generator was purchased for the fire department. The First Street South and Forcemain Relocation project was in progress in 2015.

Economic Factor and Next Year's Budget

The economic factors in the Medora area are driven mainly by tourism and oil activity. The 2010 Census showed Medora's population to be at 112. Because of low population and high tourism, Medora is granted an artificial population of 800% for state funding. Major budgetary highlights for 2016 include the completion of the First Street South project and the completion of Second Street South has been added to this project. The restrooms in the Medora Community Center will be rehabilitated to make them handicap accessible. The contract between Beach Cable and The City of Medora will dissolve, so there will be changes to the city's cable system. \$100,000 has been budgeted toward rehabilitating the city tennis courts.

Long-Term Debt

Because of the increase in oil revenue and sales tax revenue the City of Medora has not had to incur much long-term debt. The City currently has two 0% intergovernmental agreements with Billings County. A city housing loan was issued in 2009 for \$150,000. Annual payback is \$15,000 for ten years. The balance at the end of 2015 is \$60,000. A loan to help with the expense of building a new fire hall was issued in 2013 for \$550,000. Payback was scheduled for \$100,000 for the first 5 years (beginning in 2014) and \$50,000 for the 6th year. Grant monies for the fire hall were received in the amount of \$285,000 which was put toward the loan. The City also made a \$100,000 payment in 2015 so the balance at the end of 2015 is \$65,000.

Financial Contact

The city's financial statements are designed to provide users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability for monies received. If you have any questions about the report or need additional financial information, contact the City Auditor. You may contact us by mailing comments or questions to PO Box 418A, Medora, ND 58645. The City's email is mauditor@midstate.net and the phone number for the City Auditor is (701)623-4828.

**CITY OF MEDORA
MEDORA, NORTH DAKOTA**

CITY OFFICIALS

| | |
|-----------------|----------------|
| Douglas Ellison | Mayor |
| Todd Corneil | Council Member |
| Denis Joyce | Council Member |
| Ben Brannum | Council Member |
| John Tczap | Council Member |
| Carla Steffen | City Auditor |
| Sandra Kuntz | City Attorney |



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Licensed in North Dakota and Montana

INDEPENDENT AUDITOR'S REPORT

To the City Council
Medora, North Dakota 58645

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 Medora, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Medora, North Dakota, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2015 the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis and Budgetary Comparison information on pages i - v and pages 30 - 33 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 Medora's basic financial statements. The

accompanying supplementary information such as the combining and individual non-major fund financial statements on page 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying other 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 July 19, 2016 on our consideration of the City of Medora'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 Medora's internal control over financial reporting and compliance.

James J. Wosepka, PC

By  CBA

July 19, 2016
Beach, North Dakota

**CITY OF MEDORA
STATEMENT OF NET POSITION
December 31, 2015**

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 5,928,573 | \$ 148,990 | \$ 6,077,563 |
| Petty cash | - | 95 | 95 |
| Accounts/other receivables | 3,420 | 4,764 | 8,184 |
| Capital assets not being depreciated | | | |
| Land | 120,000 | 55,944 | 175,944 |
| Construction in Progress | 474,690 | - | 474,690 |
| Infrastructure | 534,345 | - | 534,345 |
| Capital assets being depreciated (net of accumulated depreciation) | 2,320,934 | 180,854 | 2,501,788 |
| Total Assets | 9,381,962 | 390,647 | 9,772,609 |
| LIABILITIES | | | |
| Accounts payable and other current liabilities | - | - | - |
| Noncurrent liabilities: | | | |
| Due within one year | 125,000 | - | 125,000 |
| Due in more than one year | 222,893 | - | 222,893 |
| Total Liabilities | 347,893 | - | 347,893 |
| NET POSITION | | | |
| Net Investment in capital assets | 3,102,076 | 236,798 | 3,338,874 |
| Restricted | 252,233 | - | 252,233 |
| Unrestricted | 5,679,760 | 153,849 | 5,833,609 |
| Total Net Position | \$ 9,034,069 | \$ 390,647 | \$ 9,424,716 |

See accompanying notes to financial statements.

CITY OF MEDORA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2015

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|--|--|--|-----------------------------|---------------------|
| | Expenses | Charges for Services, Fines, Forfeitures, etc. | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 491,079 | \$ - | \$ - | \$ (491,079) | \$ - | \$ (491,079) |
| Public safety | 352,570 | 240 | - | (352,330) | - | (352,330) |
| Public works | 1,076 | - | - | (1,076) | - | (1,076) |
| Culture and recreation | 366,001 | 123,323 | - | (242,678) | - | (242,678) |
| Miscellaneous | - | - | - | - | - | - |
| Total governmental activities | <u>1,210,726</u> | <u>123,563</u> | <u>-</u> | <u>(1,087,163)</u> | <u>-</u> | <u>(1,087,163)</u> |
| Business-type activities: | | | | | | |
| Public utility | 245,532 | 170,699 | - | - | (74,833) | (74,833) |
| Outdoor recreation | 33,752 | 13,184 | 62,750 | - | 42,182 | 42,182 |
| Total business-type activities | <u>279,284</u> | <u>183,883</u> | <u>62,750</u> | <u>-</u> | <u>(32,651)</u> | <u>(32,651)</u> |
| Total primary government | <u>\$ 1,490,010</u> | <u>\$ 307,446</u> | <u>62,750</u> | <u>(1,087,163)</u> | <u>(32,651)</u> | <u>(1,119,814)</u> |
| General revenues: | | | | | | |
| Property taxes | | | | 37,243 | - | 37,243 |
| Licenses and permits | | | | 7,882 | - | 7,882 |
| Unrestricted Federal/State shared revenues | | | | 1,757,865 | - | 1,757,865 |
| Unrestricted grants | | | | 1,140,000 | - | 1,140,000 |
| Unrestricted investment earnings | | | | 1,581 | 20 | 1,601 |
| Miscellaneous | | | | 8,012 | - | 8,012 |
| Transfers | | | | (75,000) | 75,000 | - |
| Total general revenues and transfers | | | | <u>2,877,583</u> | <u>75,020</u> | <u>2,952,603</u> |
| Change in net position | | | | 1,790,420 | 42,369 | 1,832,789 |
| Total net position - January 1, 2015 - as previously reported | | | | 7,455,227 | 348,278 | 7,803,505 |
| Prior period restatement | | | | (211,578) | - | (211,578) |
| Total net position - January 2, 2015 - as restated | | | | <u>7,243,649</u> | <u>348,278</u> | <u>7,591,927</u> |
| Total net position - December 31, 2015 | | | | <u>\$ 9,034,069</u> | <u>\$ 390,647</u> | <u>\$ 9,424,716</u> |

See accompanying notes to financial statements.

**CITY OF MEDORA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015**

| Description | Major Fund | | | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| | General | City Sales Tax | Other Governmental Funds | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 3,764,201 | \$ 1,349,385 | \$ 814,987 | \$ 5,928,573 |
| Accounts receivable | 3,420 | - | - | 3,420 |
| Total Assets | 3,767,621 | 1,349,385 | 814,987 | 5,931,993 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | - | - | - | - |
| Deposits payable | - | - | - | - |
| Total Liabilities | - | - | - | - |
| Fund balances: | | | | |
| Restricted | - | - | 252,233 | 252,233 |
| Committed | - | 1,349,385 | 562,754 | 1,912,139 |
| Unassigned | 3,767,621 | - | - | 3,767,621 |
| Total fund balances | 3,767,621 | 1,349,385 | 814,987 | 5,931,993 |
| Total liabilities and fund balances | \$ 3,767,621 | \$ 1,349,385 | \$ 814,987 | |

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

| | |
|---|----------------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | <u>3,449,969</u> |
| Long-term liabilities, including bonds and pensions payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(347,893)</u> |
| Net position of governmental activities | \$ <u>9,034,069</u> |

CITY OF MEDORA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2015

| Description | Major Funds | | | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------|--------------------------|
| | General | City Sales Tax | Other Governmental Funds | |
| REVENUES | | | | |
| Taxes/assessments | \$ 37,229 | \$ - | \$ 14 | \$ 37,243 |
| Licenses and permits | 7,882 | - | - | 7,882 |
| Intergovernmental revenues | 1,991,948 | 569,722 | 336,195 | 2,897,865 |
| Charges for services | 123,323 | - | - | 123,323 |
| Fines and forfeitures | 240 | - | - | 240 |
| Miscellaneous | 8,012 | - | - | 8,012 |
| Investment and royalty earnings | 1,581 | - | - | 1,581 |
| Total Revenues | 2,170,215 | 569,722 | 336,209 | 3,076,146 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 477,127 | - | - | 477,127 |
| Public safety | 391,197 | - | - | 391,197 |
| Public works | 687,292 | 468,667 | 18,887 | 1,174,846 |
| Culture and recreation | 212,900 | - | 120,620 | 333,520 |
| Debt Service | | | | |
| Principal | - | 115,000 | - | 115,000 |
| Total Expenditures | 1,768,516 | 583,667 | 139,507 | 2,491,690 |
| Excess of revenues (under) expenditures | 401,699 | (13,945) | 196,702 | 584,456 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from notes/loans | - | - | - | - |
| Transfers in | 78 | - | - | 78 |
| Transfers out | (75,000) | - | (78) | (75,078) |
| Total other financing sources (uses) | (74,922) | - | (78) | (75,000) |
| Net change in fund balances | 326,777 | (13,945) | 196,624 | 509,456 |
| Fund balances - January 1, 2015 | 3,440,844 | 1,363,330 | 618,363 | 5,422,537 |
| Fund balances - December 31, 2015 | \$ 3,767,621 | \$ 1,349,385 | \$ 814,987 | \$ 5,931,993 |

See accompanying notes to financial statements.

**CITY OF MEDORA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED DECEMBER 31, 2015**

| | |
|--|----------------------------|
| Net change in fund balances - total governmental funds (page 8) | <u>\$ 509,456</u> |
| Amounts reported for governmental activities in the statement of activities (page 6) are different because: | |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets: | |
| Capital assets purchased | <u>1,266,329</u> |
| Depreciation expense | <u>(120,286)</u> |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets: | |
| Long-term loan principal payments | <u>115,000</u> |
| 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 | <u>(3,361)</u> |
| Change in pension liability | <u>23,282</u> |
| Change in Net Position in Governmental Activities | <u><u>\$ 1,790,420</u></u> |

**CITY OF MEDORA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015**

| Description | Business-type Activities | | |
|--|--------------------------|-----------------------|-------------------|
| | Major Enterprise Fund | | Totals |
| | Public Utility | Outdoor Recreation | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 72,593 | \$ 76,397 | \$ 148,990 |
| Petty cash | 95 | - | 95 |
| Accounts/other receivables | 4,764 | - | 4,764 |
| Total Current Assets | 77,452 | 76,397 | 153,849 |
| Noncurrent Assets | | | |
| Capital assets: | | | |
| Land | 55,945 | - | 55,945 |
| Construction in progress | - | - | - |
| Buildings | 251,362 | - | 251,362 |
| Improvements other than buildings | 75,298 | 361,155 | 436,453 |
| Machinery and equipment | 229,162 | - | 229,162 |
| Less: accumulated depreciation | (542,772) | (193,352) | (736,124) |
| Capital assets - net of accumulated depreciation | 68,995 | 167,803 | 236,798 |
| Total Noncurrent Assets | 68,995 | 167,803 | 236,798 |
| Total Assets | 146,447 | 244,200 | 390,647 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | - | - | - |
| Total Current Liabilities | - | - | - |
| Total Liabilities | - | - | - |
| NET POSITION | | | |
| Net Investment in capital assets | 68,995 | 167,803 | 236,798 |
| Unrestricted | 77,452 | 76,397 | 153,849 |
| Total Net Position | \$ 146,447 | \$ 244,200 | \$ 390,647 |

See accompanying notes to financial statements.

CITY OF MEDORA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2015

| Description | Business-type Activities | | |
|--|--------------------------|--------------------|----------------|
| | Major Enterprise Fund | | Totals |
| | Public Utility | Outdoor Recreation | |
| OPERATING REVENUES | | | |
| Charges for services | \$ 170,699 | \$ 13,184 | \$ 183,883 |
| Miscellaneous revenues | - | - | - |
| Total Operating Revenues | 170,699 | 13,184 | 183,883 |
| OPERATING EXPENSES | | | |
| Personal services | - | 2,105 | 2,105 |
| Supplies | - | 4,758 | 4,758 |
| Purchased services | 229,576 | 20,586 | 250,162 |
| Building materials | 15,063 | - | 15,063 |
| Depreciation | 893 | 6,303 | 7,196 |
| Total Operating Expenses | 245,532 | 33,752 | 279,284 |
| Operating Income (Loss) | (74,833) | (20,568) | (95,401) |
| NON-OPERATING REVENUES | | | |
| Intergovernmental revenue | - | 62,750 | 62,750 |
| Interest revenue | 11 | 9 | 20 |
| Total Non-operating Revenues | 11 | 62,759 | 62,770 |
| Income (Loss) before contributions and transfers | (74,822) | 42,191 | (32,631) |
| Transfers in (out) | 65,000 | 10,000 | 75,000 |
| Change in net position | (9,822) | 52,191 | 42,369 |
| Total net position - January 1, 2015 | 156,269 | 192,009 | 348,278 |
| Total net position - December 31, 2015 | \$ 146,447 | \$ 244,200 | \$ 390,647 |

See accompanying notes to financial statements.

**CITY OF MEDORA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED DECEMBER 31, 2015**

| Description | Business-type Activities | | |
|--|--------------------------|--------------------|-------------|
| | Major Enterprise Fund | | Totals |
| | Public Utility | Outdoor Recreation | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 170,258 | \$ 13,184 | \$ 183,442 |
| Cash paid to suppliers | (244,639) | (27,449) | (272,088) |
| Net cash provided (used) by operating activities | (74,381) | (14,265) | (88,646) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from (to) other funds | 65,000 | 10,000 | 75,000 |
| Net cash provided (used) by noncapital financing activities | 65,000 | 10,000 | 75,000 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Intergovernmental grants | - | 62,750 | 62,750 |
| Purchases/acquisition/construction of capital assets | (13,500) | (105,649) | (119,149) |
| Net cash provided (used) by capital and related financing activities | (13,500) | (42,899) | (56,399) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest earnings | 10 | 9 | 19 |
| Net cash provided (used) by investing activities | 10 | 9 | 19 |
| Net increase (decrease) in cash and cash equivalents | (22,871) | (47,155) | (70,026) |
| Cash and cash equivalents - January 1, 2015 | 95,559 | 123,552 | 219,111 |
| Cash and cash equivalents - December 31, 2015 | \$ 72,688 | \$ 76,397 | \$ 149,085 |
| Reconciliation of operating income to net cash provided (used) by operating activities: | | | |
| Operating income | \$ (74,833) | \$ (20,568) | \$ (95,401) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities | | | |
| Depreciation expense | 893 | 6,303 | 7,196 |
| (Increase) decrease in accounts receivable | (441) | - | (441) |
| Increase (decrease) in accounts payable | - | - | - |
| Total adjustments | 452 | 6,303 | 6,755 |
| Net cash provided (used) by operating activities | \$ (74,381) | \$ (14,265) | \$ (88,646) |

See accompanying notes to financial statements.

**CITY OF MEDORA
MEDORA, NORTH DAKOTA**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

1. Summary of Significant Accounting Policies

The financial statements of the City of Medora, North Dakota (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles. The City's significant accounting policies are described below.

Reporting Entity

The City is governed by an elected Mayor and City Council. The City's basic financial statements include the accounts of all City operations. The criteria for including organizations within the City's reporting entity, as set forth in GASB No. 14, "The Financial Reporting Entity", is financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

There are no component units to be included with the City as reporting entities.

Basic Financial Statements

In accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) report on the City as a whole, excluding fiduciary activities. 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. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

1. **Summary of Significant Accounting Policies – Cont.**
Basic Financial Statements – Cont.

The Government-wide Statement of Net Position reports all financial and capital resources of the City, excluding fiduciary funds. It is displayed in a format of assets less liabilities equal net position with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position is those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, laws, or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net position, not otherwise classified as restricted, is shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Interest on general long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income, and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

1. **Summary of Significant Accounting Policies – Cont.**
Basic Financial Statements – Cont.

The City reports the following major Governmental Funds:

General Fund - This fund reports the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

City Sales/Tax Fund – This fund is used for infrastructure repairs and construction.

The City reports the following major Proprietary Funds:

Public Utility Fund - This fund is used to account for the operating and non-operating revenues and expenses of the public utility system. The fund is maintained on the full accrual basis of accounting.

Measurement Focus and Basis of Accounting

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits, penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as an other financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since

1. **Summary of Significant Accounting Policies – Cont.**
Measurement Focus and Basis of Accounting – Cont.

the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary funds financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds are eliminated in the consolidation for the government-wide financial statements but are included in the fund columns in the proprietary funds financial statements. A reconciliation of the total enterprise funds on the fund financial statements to the business-type activities column on the government-wide financial statements is provided on the face of the fund financial statements.

Enterprise funds account for operations where the intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services including capital costs.

On the proprietary funds financial statements, operating revenues are those that flow directly from the operations of the activity (i.e., charges to customers or users who purchase or use the goods or services of that activity). Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items such as investment income and interest expense that are not a result of the direct operations of the activity.

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial cost of more than \$5,000 with a useful life of one year or more.

1. **Summary of Significant Accounting Policies – Cont.**
Capital Assets – Cont.

Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------------|--------------|
| Buildings | 40 - 70 |
| Building improvements | 20 |
| Public domain infrastructure | 40 |
| System infrastructure | 40 - 100 |
| Vehicles | 12 - 15 |
| Equipment other than vehicles | 12 - 20 |
| Office equipment | 5 |
| Computer equipment | 5 |

No provision is being made to capitalize interest on debt to finance construction of assets.

The City chose not to retroactively report infrastructure in accordance with Phase III implementation of GASB Statement No. 34. The City's infrastructure consists of curbs, sidewalks, and streets constructed after 2003.

Enterprise Accounts Receivable

No reserve for estimated uncollected accounts receivable is maintained. Accounts receivable are reported as net of revenues collected in advance.

Inventories

Inventories of materials and supplies are expensed at the time of purchase. Inventories of materials and supplies on hand are not maintained. Inventories were not, however, considered material.

Interfund Transactions

Quasi-external transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for disbursements initially made from it that are properly applicable to another fund are recorded as disbursements in the reimbursing.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

1. **Summary of Significant Accounting Policies – Cont.**

Encumbrances

Encumbrance accounting is used for the General Fund and Special Revenue Funds. Encumbrances are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Encumbrances are reported as a reservation of fund balance on the balance sheet. Encumbrances do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds or notes issued to acquire, construct, or improve those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balances – Governmental Funds

As of December 31, 2015, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements, or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the City Council may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

1. **Summary of Significant Accounting Policies – Cont.**
Fund Balances – Governmental Funds – Cont.

As of December 31, 2015, fund balances are composed of the following:

| | <u>General Fund</u> | <u>City Sales Tax</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------|-------------------------|-------------------------------|--|---|
| Restricted: | | | | |
| Highways | \$ - | \$ - | \$ 252,233 | \$ 252,233 |
| Committed: | | | | |
| 1/2% Sales Tax | - | - | 412,901 | 412,901 |
| City Sales Tax | - | 1,349,385 | - | 1,349,385 |
| Occupancy Tax | - | - | 149,853 | 149,853 |
| Unassigned Funds | <u>3,767,621</u> | <u>-</u> | <u>-</u> | <u>3,767,621</u> |
| Total fund balances | <u>\$ 3,767,621</u> | <u>\$ 1,349,385</u> | <u>\$ 814,987</u> | <u>\$ 5,931,993</u> |

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

Implementation of GASB Pronouncements

In June 2012, GASB issued revised pension accounting and reporting guidance for governmental employers, *Accounting and Financial Reporting for Pensions*. This revised guidance is effective for periods beginning after June 15, 2014, and will require cost-sharing employers like the City to recognize their proportionate share of the collective pension expense, deferred inflows and outflows of resources, and the net pension liabilities related to the City's participation in the Public Employees Retirement System.

2. **Restatement**

The City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. This Statement establishes standards of financial reporting and specifies the required approach to measuring pension liability of employers for benefits provided through the pension plan. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. This financial report has been updated in accordance with GASB Statement No. 67.

Related to its implementation of GASB Statement No. 67, the City elected to implement the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, for the Employees' Pension Plans. This Statement establishes standards for measuring

2. Restatement – Cont.

and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures that will be presented by the pension plans that are within its scope.

The implementation of GASB Statement No. 68 had the following effect:

| | |
|--|----------------------------|
| | Governmental Activities |
| Net position, December 31, 2014 | \$ 7,455,227 |
| Recognition of net pension liabilities | (211,578) |
| Restated net position, December 31, 2014 | <u>\$ 7,243,649</u> |

3. Cash and Cash Equivalents

The City maintains a cash pool for all funds under the control of the City Auditor. Cash includes cash and cash items of checking and savings deposits which are highly liquid or have a maturity date of three months or less when purchased. The composition of cash on December 31, 2015 was as follows:

| | | |
|-----------------------------|-------------|---------------------|
| | <u>Cash</u> | |
| Petty Cash | | \$ 95 |
| Cash in Banks | | |
| Demand and Savings Deposits | | <u>6,077,563</u> |
| Total | | <u>\$ 6,077,658</u> |

Deposits - At year-end, the carrying amount of the City's deposits was \$6,077,563 and the bank balance was \$6,174,589. These deposits include demand and savings deposits. Of the bank balance, \$500,000 was covered by Federal Depository Insurance and the balance of \$5,674,589 was covered by pledged securities.

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party.

North Dakota statutes require that the City obtain pledged securities for the uninsured portion of the deposits equal to 110% of such deposits. The amount of collateral held for City deposits at December 31, 2015 exceeded the amount required by state statutes.

State statutes authorize local governments 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

3. **Cash and Cash Equivalents – Cont.**

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 the state, d) Certificates of Deposit, savings deposits, or other deposits fully insured or guaranteed by the Federal Deposit Insurance Corporation and placed for the benefit of the public depositor by a public depository through an appropriate deposit placement service as determined by the Commissioner of Financial Institutions, e) State and local securities, and f) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

4. **Accounts Receivable**

Accounts receivable consists of billings for December and accounts delinquent at December 31.

5. **Interfund Transfers**

Transfers that occurred during 2015 are as follows:

| | |
|--------------------|--------------|
| General Fund | \$ (157,460) |
| Public Utility | \$ 20,000 |
| Outdoor Recreation | \$ 135,000 |
| Library | \$ 2,460 |

Transfers were made for normal operations.

6. **Risk Management**

The City of Medora participates in the North Dakota Insurance Reserve Fund, North Dakota Fire and Tornado Fund, and the North Dakota Worker's Compensation Bureau to control their risk of loss. There have been no settled claims that exceeded the insurance coverage in any of the past three fiscal years.

7. **Commitment**

The City has contracted with Theodore Roosevelt Medora Foundation for garbage disposal. Fees for 2015 were \$62,840 and are billed quarterly.

The City has a commitment to the County Ambulance Service. The City pays 50% of the annual costs less revenues. For 2015, the City paid \$123,468 out of their General Fund.

The City has a contract for 1st Street South construction and forcemain relocation. The total contract is \$478,190, of which \$331,666 has been billed and paid.

8. **Compensated Absences**

Upon termination, the City will pay a maximum of 240 hours for vacation and 10% of accumulated sick leave with a maximum of 960 hours. As of December 31, 2014 and 2015, there is \$31,236 and \$34,597, respectively. These amounts would come from the General Fund.

9. Retirement Plan

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

9. **Retirement Plan – Cont.**

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 member's accumulated contributions plus interest.

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

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

- 1 to 12 months of service – Greater of 1% of monthly salary or \$25
- 13 to 25 months of service – Greater of 2% of monthly salary or \$25

9. **Retirement Plan – Cont.**

25 to 36 months of service – Greater of 3% of monthly salary or \$25

Longer than 36 months of service – Greater of 4% of monthly salary or \$25

Member and Employer Contributions

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

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

At December 31, 2015, the Employer reported a liability of \$188,296 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2014, the Employer's proportion was 0.029666 percent.

For the year ended December 31, 2015, the Employer recognized pension expense of \$18,631. At December 31, 2015, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 6,105 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected and actual earnings on pension plan investments | - | (36,756) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | - |
| Employer contributions subsequent to the measurement date | 23,282 | - |
| Total | <u>\$ 29,387</u> | <u>\$ (36,756)</u> |

\$23,282 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015.

9. **Retirement Plan – Cont.**

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

| Year ended June 30: | |
|----------------------------|------------|
| 2016 | \$ (7,890) |
| 2017 | (7,890) |
| 2018 | (7,890) |
| 2019 | (7,890) |
| 2020 | 909 |
| Thereafter | - |

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

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

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

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

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

9. **Retirement Plan – Cont.**

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

Discount rate. The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

| | 1% Decrease (7%) | Current Discount Rate (8%) | 1% Increase (9%) |
|---|------------------|----------------------------|------------------|
| Employer's proportionate share of the net pension liability | \$ 290,409 | \$ 188,296 | \$ 102,916 |

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

9. **Retirement Plan – Cont.**

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

| | 2015 |
|---|-----------|
| Employer’s proportion of the net pension liability (asset) | 0.029666% |
| Employer’s proportionate share of the net pension liability (asset) | \$188,296 |
| Employer’s covered-employee payroll | \$249,901 |
| Employer’s proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 75.35% |
| Plan fiduciary net position as a percentage of the total pension liability | 77.70% |

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

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

| | 2015 |
|--|------------|
| Statutorily required contribution | \$17,793 |
| Contributions in relation to the statutorily required contribution | (\$17,793) |
| Contribution deficiency (excess) | - |
| Employer’s covered-employee payroll | \$249,901 |
| Contributions as a percentage of covered-employee payroll | 7.12% |

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

10. **Long-term Debt**

The City entered into a 10 year 0% interest loan with Billings County in the amount of \$150,000 in 2009. The loan is to be paid in annual installments of \$15,000. As of December 31, 2015, the City owed \$60,000. Payments are made from the City Sales Tax Fund.

The City entered into a 6 year 0% interest loan with Billings County in the amount of \$550,000 for the financing of a fire hall. The loan is to be repaid at \$100,000 per year and \$50,000 in the final year. If any grants are received for the fire hall, the amount of the grants is to be used to make immediate payments on the loan.

10. Long-term Debt – Cont.

As of December 31, 2015, \$285,000 has been paid back on the loan from grants received in the General Fund, and \$200,000 has been paid from the City Sales Tax Fund, including \$100,000 in 2015.

Future loan payments are as follows:

| | | | Total |
|------|------------------|---------------|----------------|
| 2016 | \$ 15,000 | \$ 65,000 | \$ 80,000 |
| 2017 | 15,000 | - | 15,000 |
| 2018 | 15,000 | - | 15,000 |
| 2019 | 15,000 | - | 15,000 |
| | <u>\$ 60,000</u> | <u>65,000</u> | <u>125,000</u> |

11. Subsequent Events

The City has paid an additional \$140,805 on the 1st Street construction project to the date of this report. \$5,719 is left to be paid on the contract. Subsequent events have been evaluated through the date of these financial statements.

12. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2015.

| Governmental activities: | Beginning Balance | Increases | Decreases | Ending Balance |
|--|---------------------|----------------|------------------|---------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 120,000 | \$ - | \$ - | \$ 120,000 |
| Construction in Progress | - | 474,690 | - | 474,690 |
| Infrastructure | 534,345 | - | - | 534,345 |
| Total capital assets not being depreciated | <u>654,345</u> | <u>474,690</u> | <u>-</u> | <u>1,129,035</u> |
| Capital assets being depreciated | | | | |
| Buildings | 2,381,144 | - | - | 2,381,144 |
| Machinery and equipment | 554,796 | 126,195 | 83,941 | 597,050 |
| Improvements | 136,033 | 665,444 | - | 801,477 |
| Total capital assets being depreciated | <u>3,071,973</u> | <u>791,639</u> | <u>83,941</u> | <u>3,779,671</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,001,348) | - | (59,223) | (1,060,571) |
| Machinery and equipment | (345,447) | 83,941 | (48,949) | (310,455) |
| Improvements | (75,597) | - | (12,114) | (87,711) |
| Total accumulated depreciation | <u>(1,422,392)</u> | <u>83,941</u> | <u>(120,286)</u> | <u>(1,458,737)</u> |
| Net capital assets being depreciated | <u>1,649,581</u> | | | <u>2,320,934</u> |
| Governmental activities capital assets net | <u>\$ 2,303,926</u> | | | <u>\$ 3,449,969</u> |

Depreciation expense for the governmental activities is allocated as follows:

| | |
|----------------------|-------------------|
| General Government | \$ 33,873 |
| Public Safety | 44,959 |
| Public Works | 8,973 |
| Culture & Recreation | 32,481 |
| | <u>\$ 120,286</u> |

12. Capital Assets – Cont.

| Business-type activities: | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 55,944 | \$ - | \$ - | \$ 55,944 |
| Construction in progress | 66,480 | - | 66,480 | - |
| Total capital assets not being depreciated | <u>122,424</u> | <u>-</u> | <u>66,480</u> | <u>55,944</u> |
| Capital assets being depreciated | | | | |
| Buildings | 251,362 | - | - | 251,362 |
| Machinery and equipment | 229,162 | - | - | 229,162 |
| Improvements | 250,824 | 185,629 | - | 436,453 |
| Total capital assets being depreciated | <u>731,348</u> | <u>185,629</u> | <u>-</u> | <u>916,977</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | (251,362) | - | - | (251,362) |
| Machinery and equipment | (228,718) | - | (443) | (229,161) |
| Improvements | (248,847) | - | (6,753) | (255,600) |
| Total accumulated depreciation | <u>(728,927)</u> | <u>-</u> | <u>(7,196)</u> | <u>(736,123)</u> |
| Net capital assets being depreciated | <u>2,421</u> | | | <u>180,854</u> |
| Business-type activities capital assets net | <u>\$ 124,845</u> | | | <u>\$ 236,798</u> |

Depreciation expense for the business-type activities is allocated as follows:

| | |
|--------------------|-----------------|
| Public Utility | \$ 6,753 |
| Outdoor Recreation | 443 |
| | <u>\$ 7,196</u> |

REQUIRED
SUPPLEMENTARY INFORMATION

CITY OF MEDORA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
General Fund
Year Ended December 31, 2015

| | <u>Original Budget Amounts</u> | <u>Final Budget Amounts</u> | <u>Actual Amounts</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes/Special Assessments | \$ 36,982 | \$ 36,982 | \$ 37,229 | \$ 247 |
| Licenses and Permits | 6,820 | 6,820 | 7,882 | 1,062 |
| Intergovernmental Revenue | 1,388,960 | 1,388,960 | 1,991,948 | 602,988 |
| Charges for Services | 69,200 | 69,200 | 123,323 | 54,123 |
| Fines and Forfeitures | 200 | 200 | 240 | 40 |
| Miscellaneous Revenues | 2,000 | 2,000 | 8,012 | 6,012 |
| Investment and Royalty Earnings | 2,000 | 2,000 | 1,581 | (419) |
| Total Revenues | <u>1,506,162</u> | <u>1,506,162</u> | <u>2,170,215</u> | <u>664,053</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | 385,682 | 615,682 | 477,127 | 138,555 |
| Public Safety | 363,764 | 440,514 | 391,197 | 49,317 |
| Public Works | 724,352 | 724,352 | 687,292 | 37,060 |
| Culture and Recreation | 217,305 | 217,305 | 212,900 | 4,405 |
| Miscellaneous | - | - | - | - |
| Total Expenditures | <u>1,691,103</u> | <u>1,997,853</u> | <u>1,768,516</u> | <u>229,337</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>(184,941)</u> | <u>(491,691)</u> | <u>401,699</u> | <u>893,390</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | 78 | 78 |
| Operating Transfers (Out) | (110,000) | (110,000) | (75,000) | 35,000 |
| Loan Proceeds | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>(110,000)</u> | <u>(110,000)</u> | <u>(74,922)</u> | <u>35,078</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>(\$294,941)</u> | <u>(\$601,691)</u> | <u>326,777</u> | <u>\$928,468</u> |
| Fund Balances - January 1, 2015 | | | <u>3,440,844</u> | |
| Fund Balances - December 31, 2015 | | | <u>\$ 3,767,621</u> | |

CITY OF MEDORA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
City Sales Tax Fund
Year Ended December 31, 2015

| | <u>Original Budget Amounts</u> | <u>Final Budget Amounts</u> | <u>Actual Amounts</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes/Special Assessments | \$ - | \$ - | \$ - | \$ - |
| Licenses and Permits | - | - | - | - |
| Intergovernmental Revenue | 300,000 | 300,000 | 569,722 | 269,722 |
| Fines and Forfeitures | - | - | - | - |
| Miscellaneous Revenues | - | - | - | - |
| Investment and Royalty Earnings | - | - | - | - |
| Total Revenues | <u>300,000</u> | <u>300,000</u> | <u>569,722</u> | <u>269,722</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Public Safety | - | - | - | - |
| Public Works | 625,700 | 625,700 | 468,667 | 157,033 |
| Public Health | - | - | - | - |
| Culture and Recreation | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Debt Service: | | | | |
| Principal | 115,000 | 115,000 | 115,000 | - |
| Total Expenditures | <u>740,700</u> | <u>740,700</u> | <u>583,667</u> | <u>157,033</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>(440,700)</u> | <u>(440,700)</u> | <u>(13,945)</u> | <u>426,755</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers (Out) | - | - | - | - |
| Loan Proceeds | - | - | - | - |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (Deficiency) Of Revenues and Other Sources Over Expenditures and Other Uses | <u>(\$440,700)</u> | <u>(\$440,700)</u> | <u>(13,945)</u> | <u>\$426,755</u> |
| Fund Balances - January 1, 2015 | | | <u>1,363,330</u> | |
| Fund Balances - December 31, 2015 | | | <u>\$1,349,385</u> | |

**CITY OF MEDORA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2015**

Budgets

The governing body must give notice on or before September 10 that a preliminary budget is on file and the time and place of the meeting to adopt the final budget, but no later than October 7. The final budget and levy shall be submitted to the County Auditor no later than October 10.

Budgets are prepared for the General Fund, Special Revenue Funds, and the Debt Service Funds on a cash basis, which is not materially different from the modified accrual basis. Annual appropriations lapse at year end.

Budget Amendment

By an approved motion of the City Council, the expense budget for the following funds was amended:

| | Original Budget | Change | Final Budget |
|---------------------|--------------------|-----------|-----------------|
| General Fund | \$1,801,103 | \$306,750 | \$2,107,853 |
| Occupancy Tax Fund | \$103,000 | \$19,990 | \$122,990 |
| Public Utility Fund | \$253,126 | \$6,000 | \$259,126 |

SUPPLEMENTARY INFORMATION

CITY OF MEDORA
Schedule of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
Non-Major Special Revenue Funds
Year Ended December 31, 2015

| | <u>Original Budget Amounts</u> | <u>Final Budget Amounts</u> | <u>Actual Amounts</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|--|-------------------------------------|---------------------------|---|
| Revenues: | | | | |
| Taxes/Special Assessments | \$ - | \$ - | \$ 14 | \$ 14 |
| Licenses and Permits | - | - | - | - |
| Intergovernmental Revenue | 213,500 | 213,500 | 336,195 | 122,695 |
| Fines and Forfeitures | - | - | - | - |
| Miscellaneous Revenues | - | - | - | - |
| Investment and Royalty Earnings | - | - | - | - |
| Total Revenues | <u>213,500</u> | <u>213,500</u> | <u>336,209</u> | <u>122,709</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government | - | - | - | - |
| Public Safety | - | - | - | - |
| Public Works | 26,800 | 26,800 | 18,887 | 7,913 |
| Public Health | - | - | - | - |
| Culture and Recreation | 103,000 | 122,990 | 120,620 | 2,370 |
| Miscellaneous | - | - | - | - |
| Capital Outlay | - | - | - | - |
| Debt Service: | | | | |
| Principal | - | - | - | - |
| Interest | - | - | - | - |
| Total Expenditures | <u>129,800</u> | <u>149,790</u> | <u>139,507</u> | <u>10,283</u> |
| Excess (Deficiency) Of Revenues Over Expenditures | <u>83,700</u> | <u>63,710</u> | <u>196,702</u> | <u>132,992</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | - | - | (78) | (78) |
| Total Other Financing Sources (Uses): | <u>-</u> | <u>-</u> | <u>(78)</u> | <u>(78)</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>\$ 83,700</u> | <u>\$ 63,710</u> | 196,624 | <u>\$ 132,914</u> |
| Fund Balances - January 1, 2015 | | | <u>618,363</u> | |
| Fund Balances - December 31, 2015 | | | <u>\$ 814,987</u> | |



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Licensed in North Dakota and Montana

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

To the City Council
Medora, North Dakota 58645

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 Medora, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Medora, North Dakota's basic financial statements, and have issued our report thereon dated July 19, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Medora, 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 the City of Medora, North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Medora, 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Medora, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

James J. Wosepka, PC

By *James J. Wosepka*
CRA

July 19, 2016
Beach, North Dakota