

AUDIT REPORT

CITY OF MOHALL
Mohall, North Dakota

For the Year Ended December 31, 2016

RATH & MEHRER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MOHALL
Mohall, North Dakota

TABLE OF CONTENTS
For the Year Ended December 31, 2016

	<u>Page (s)</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-11
 BASIC FINANCIAL STATEMENTS	
Statement of Net Position - Modified Cash Basis	12
Statement of Activities - Modified Cash Basis	13
Balance Sheet - Modified Cash Basis - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position - Modified Cash Basis	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis	17
Statement of Net Position - Modified Cash Basis - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Funds	19
Statement of Cash Flows - Modified Cash Basis - Proprietary Funds	20
Notes to the Financial Statements	21-37
 SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules - Modified Cash Basis	
General Fund	38
City Sales Tax Fund	39
Airport Fund	40
Notes to the Budgetary Comparison Schedules	41
Schedule of Employer's Share of Net Pension Liability ND Public Employees Retirement System	42
Schedule of Fund Activity Arising from Cash Transactions	43
Schedule of Expenditures of Federal Awards	44
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	45-46
Report on Compliance For Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	47-48
Schedule of Findings and Responses	49-50

CITY OF MOHALL
Mohall, North Dakota

CITY OFFICIALS

Tom Witteman	Mayor
Jim Bender	Council Member
LaVonne Erickson	Council Member
Peter Gates	Council Member
Dawn Larson	Council Member
Robyn Larson	Council Member
Mary Marmon	Council Member
Cheryl Overby	Auditor

Rath & Mehler

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Specializing in Governmental Auditing

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Jayson Rath, CPA
Ken Mehler, CPA

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Bismarck, ND 58501

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Mohall
Mohall, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the city's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the city's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, North Dakota, as of December 31, 2016, and the respective changes in modified cash basis financial position; and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the city's basic financial statements. The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability and the schedule of fund activity arising from cash transactions are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability, schedule of fund activity arising from cash transactions and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 management's discussion and analysis, budgeting comparison information, schedule of employer's share of net pension liability, schedule of fund activity arising from cash transactions and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 on our consideration of the city's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the city's internal control over financial reporting and compliance.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

January 20, 2017

CITY OF MOHALL

Management's Discussion and Analysis

December 31, 2016

The Management's Discussion and Analysis (MD&A) of the City of Mohall's financial performance provides an overall review of the city's financial activities for the fiscal year ended December 31, 2016. The intent of the MD&A is to look at the city's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended December 31, 2016 are as follows:

- * Total net position of the city increased \$109,215 as a result of the current year's operations. Net position of the governmental activities increased \$105,655 and net position of the business-type activities increased \$3,560.
- * Governmental net position totaled \$2,524,625 and business-type net position totaled \$839,760.
- * Total revenues from all sources were \$2,272,259 for governmental activities and \$432,167 for business-type activities.
- * Total expenses were \$2,166,604 for governmental activities and \$428,607 for business-type activities.
- * The city's general fund had \$383,007 in total revenues and \$258,059 in total expenditures. There was a total of \$102,196 paid from other financing uses. Overall, the general fund balance increased by \$22,752 for the year ended December 31, 2016.

USING THIS ANNUAL REPORT

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

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

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

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

REPORTING ON THE CITY AS A WHOLE

Statement of Net Position and Statement of Activities

These statements are summaries of all the funds used by the city to provide programs and activities and attempt to answer the question "How did the city do financially during the year ended December 31, 2016"

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

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

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

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

REPORTING ON THE CITY'S MOST SIGNIFICANT FUNDS

Balance Sheet - Governmental Funds

The city uses separate funds to account for and manage money dedicated for particular purposes (e.g. taxes collected from special mill levies and funds received from grants and donations). The fund basis financial statements allow the city to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. Fund financial statements provide detailed information about the city's major funds. Using the criteria established by GASB Statement No. 34, the city's general fund, city sales tax fund, airport fund, and 2010 main street improvement fund are considered "major governmental funds". The city's water fund, sewer fund and sanitation fund are considered "major enterprise funds".

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Table I provides a summary of the city's net position as of December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

As indicated in the financial highlights above, the city's net position increased by \$109,215 for the year ended December 31, 2016. Changes in net position may serve over time as a useful indicator of the city's financial position.

The city's net position of \$3,364,385 is segregated into three separate categories. Net investment in capital assets totals \$947,723. It should be noted that these assets are not available for future spending. The restricted component of net position is \$1,073,549 of the city's net position and represents resources that are subject to external restrictions on how they must be spent. The remaining unrestricted component of net position is \$1,343,113 which includes (\$115,256) relating to the reporting of it's share of the unfunded liability for the North Dakota Public Employees Retirement System as required by GASB Statement No. 68. The net amount of \$1,458,369 is available to meet the city's ongoing obligations.

Table I
Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	2,312,098	238,846
Capital Assets (net of accumulated depreciation)	1,281,809	600,914
Total Assets	<u>3,593,907</u>	<u>839,760</u>
Deferred Outflows of Resources	<u>24,780</u>	
<u>Liabilities</u>		
Current Liabilities	95,000	
Long-Term Liabilities	859,026	
Net Pension Liability	101,263	
Total Liabilities	<u>1,055,289</u>	
Deferred Inflows of Resources	<u>38,773</u>	
<u>Net Position</u>		
Net Investment in Capital Assets	346,809	600,914
Restricted	1,003,223	70,326
Unrestricted	1,174,593	168,520
Total Net Position	<u>2,524,625</u> =====	<u>839,760</u> =====

Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
<u>Assets</u>		
Current Assets	2,149,876	212,546
Capital Assets (net of accumulated depreciation)	1,386,334	623,654
Total Assets	<u>3,536,210</u>	<u>836,200</u>
Deferred Outflows of Resources	<u>18,234</u>	
<u>Liabilities</u>		
Current Liabilities	85,000	
Long-Term Liabilities	918,148	
Net Pension Liability	110,714	
Total Liabilities	<u>1,113,862</u>	
Deferred Inflows of Resources	<u>21,612</u>	
<u>Net Position</u>		
Net Investment in Capital Assets	401,334	623,654
Restricted	881,907	54,232
Unrestricted	1,135,729	158,314
Total Net Position	<u>2,418,970</u> =====	<u>836,200</u> =====

Table II shows the changes in net position for the fiscal year ended December 31, 2016. A comparative analysis of city-wide data is presented for both current and prior year.

Table II
Changes in Net Position
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	18,275	428,745
Operating Grants and Contributions	1,563,470	
<u>General Revenues:</u>		
Property Taxes	310,614	
Other Taxes	180,844	
Intergovernmental - Unrestricted	62,042	
Interest Earnings and Other Revenue	137,015	3,422
Total Revenues	<u>2,272,259</u>	<u>432,167</u>
<u>Expenses</u>		
General Government	263,122	
Public Safety	91,089	
Streets and Public Works	251,001	
Culture and Recreation	136,162	
Urban and Economic Development	45,430	
Other	1,320,495	
Discount on Sp. Assess. Bonds	10,108	
Interest on Long-Term Debt	49,198	
Water		219,950
Sewer		53,239
Sanitation		151,090
Water Sewer Surcharge		4,328
Total Expenses	<u>2,166,604</u>	<u>428,607</u>
Net Change in Position	<u>105,655</u> =====	<u>3,560</u> =====

Property taxes constituted 11%, other taxes 7%, unrestricted intergovernmental 2%, grants and contributions 58% and charges for services made up 17% of the total revenues of all activities of the city for the fiscal year ended December 31, 2016.

General government constituted 10%, public safety 4%, streets and public works 10% and enterprise 17% of total expenses for all activities during the fiscal year ended December 31, 2016.

Changes in Net Position
As of December 31, 2015

	<u>Governmental</u>	<u>Business- Type</u>
Revenues		
<u>Program Revenues:</u>		
Charges for Services	24,664	424,482
Operating Grants and Contributions	1,259,614	
<u>General Revenues:</u>		
Property Taxes	217,977	
Other Taxes	236,483	
Intergovernmental - Unrestricted	90,320	
Interest Earnings and Other Revenue	147,530	828
Total Revenues	<u>1,976,589</u>	<u>425,310</u>
Expenses		
General Government	234,993	
Public Safety	64,801	
Streets and Public Works	451,120	
Culture and Recreation	40,850	
Urban and Economic Development	16,657	
Conservation of Natural Resources	13,218	
Other	902,178	
Interest on Long-Term Debt	38,487	
Water		180,538
Sewer		84,839
Sanitation		146,466
Water Sewer Surcharge		14,084
Total Expenses	<u>1,762,301</u>	<u>425,928</u>
Net Change in Position	<u>214,287</u>	<u>(617)</u>
	=====	=====

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

Table III
Total and Net Cost of Services
As of December 31, 2016

	Total Cost Year Ended <u>Dec. 31, 2016</u>	Net Cost Year Ended <u>Dec. 31, 2016</u>
General Government	263,122	254,958
Public Safety	91,089	89,704
Streets and Public Works	251,001	183,104
Culture and Recreation	136,162	94,084
Urban and Economic Development	45,430	45,430
Other	1,320,495	(20,648)
Discount on Sp. Assess. Bonds	10,108	10,108
Interest on Long-Term Debt	49,198	(71,880)
Total Expenses	2,166,604 =====	584,860 =====

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The purpose of the city's governmental funds is to provide information on the near-term inflows, outflows and balances of available resources. Unassigned fund balance generally can be used as a measure of the city's net resources available for spending as of the end of the fiscal year. These funds are accounted for using the modified cash basis of accounting. The city's governmental funds had total revenue of \$2,272,259 and expenditures of \$3,034,929 for the year ended December 31, 2016. As of December 31, 2016, the unassigned fund balance of the city's general fund was \$1,308,875.

GENERAL FUND BUDGET HIGHLIGHTS

During the course of fiscal year 2016, the city did not amend the general fund budget.

Actual revenue for the year ended December 31, 2016 was \$87,882 less than budgeted. This variance was due to the city overestimating revenues from intergovernmental and miscellaneous sources. Actual expenditures for the year ended December 31, 2016 were under budget by \$15,541.

CAPITAL ASSETS

As of December 31, 2016, the city had \$1,882,723 invested in capital assets. The following table shows the balances, for governmental and business-type activities, as of December 31, 2016.

Table IV

Capital Assets
(Net of Accumulated Depreciation)
As of December 31, 2016

	<u>Governmental</u>	<u>Business- Type</u>
Land	18,000	34,460
Buildings and Infrastructure	1,014,684	532,374
Machinery and Vehicles	249,125	34,080
Total (net of depreciation)	<u>1,281,809</u> =====	<u>600,914</u> =====

This total represents a decrease of \$127,265 in capital assets from January 1, 2016. For a detailed breakdown of the additions and deletions to capital assets, readers are referred to Note 6 to the audited financial statements which follow this analysis.

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

	<u>Governmental</u>	<u>Business- Type</u>
Land	18,000	34,460
Buildings and Infrastructure	1,081,656	550,854
Machinery and Vehicles	286,678	38,340
Total (net of depreciation)	<u>1,386,334</u> =====	<u>623,654</u> =====

DEBT ADMINISTRATION

As of December 31, 2016, the city had \$954,026 in outstanding debt of which \$95,000 was due within one year. During fiscal year 2016, the city issued one new long-term debt obligation.

Special Assessment Bonds Payable in the amount of \$935,000. The city issued the Refunding Improvement Bonds, Series 2016 to refinance the Refunding Improvement Bonds of 2010. These bonds will have a final payment on May 1, 2025.

For a detailed breakdown of the long-term debt, readers are referred to Note 7 to the audited financial statements which follow this analysis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF MOHALL
Mohall, North Dakota

Statement of Net Position - Modified Cash Basis
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Mohall Housing Authority
ASSETS:				
Cash and Cash Equivalents	2,243,418.07	238,845.57	2,482,263.64	70,042.95
Economic Development Loans	68,680.00		68,680.00	
Capital Assets (net of accumulated depreciation):				
Land	18,000.00	34,460.00	52,460.00	
Buildings and Infrastructure	1,014,684.00	532,374.00	1,547,058.00	948,532.00
Vehicles and Machinery	249,125.00	34,080.00	283,205.00	
Total Capital Assets	1,281,809.00	600,914.00	1,882,723.00	948,532.00
Total Assets	3,593,907.07	839,759.57	4,433,666.64	1,018,574.95
DEFERRED OUTFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions	24,780.00		24,780.00	
LIABILITIES:				
Long-Term Liabilities:				
Due Within One Year:				
Special Assessment Bonds Payable	95,000.00		95,000.00	
Revenue Bonds Payable				20,785.00
Due After One Year:				
Special Assessment Bonds Payable	840,000.00		840,000.00	
Revenue Bonds Payable				915,779.00
Compensated Absences Payable	19,026.05		19,026.05	
Net Pension Liability	101,263.00		101,263.00	
Total Liabilities	1,055,289.05		1,055,289.05	936,564.00
DEFERRED INFLOWS OF RESOURCES:				
Changes in Resources Related to Pensions	38,773.00		38,773.00	
NET POSITION:				
Net Investment in Capital Assets	346,809.00	600,914.00	947,723.00	11,968.00
Restricted for:				
Debt Service	351,128.27		351,128.27	
Special Purposes	652,094.64		652,094.64	
Maintenance and Repairs		70,325.62	70,325.62	
Unrestricted	1,174,593.11	168,519.95	1,343,113.06	70,042.95
Total Net Position	2,524,625.02	839,759.57	3,364,384.59	82,010.95

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

CITY OF MOHALL
Mohall, North Dakota

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net (Expense) Revenue and Change in Net Position

	Program Revenues				Primary Government		Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Mohall Housing Authority
<u>Functions/Programs</u>							
<u>Primary Government:</u>							
<u>Governmental Activities:</u>							
General Government	263,121.77	8,163.56		(254,958.21)		(254,958.21)	
Public Safety	91,089.13	1,385.00		(89,704.13)		(89,704.13)	
Streets and Public Works	251,001.06		67,896.75	(183,104.31)		(183,104.31)	
Culture and Recreation	136,161.63	8,726.25	33,351.75	(94,083.63)		(94,083.63)	
Urban and Economic Development	45,430.00			(45,430.00)		(45,430.00)	
Other	1,320,495.17		1,341,143.60	20,648.43		20,648.43	
Discount on Sp. Assess. Bonds	10,107.50			(10,107.50)		(10,107.50)	
Interest on Long-Term Debt	49,197.98		121,077.55	71,879.57		71,879.57	
Total Governmental Activities	2,166,604.24	18,274.81	1,563,469.65	(584,859.78)		(584,859.78)	
<u>Business-Type Activities:</u>							
Water	219,950.12	182,871.81			(37,078.31)	(37,078.31)	
Sewer	53,239.15	72,884.70			19,645.55	19,645.55	
Sanitation	151,089.50	156,958.83			5,869.33	5,869.33	
Water Sewer Surcharge	4,327.85	16,029.74			11,701.89	11,701.89	
Total Business-Type Activities	428,606.62	428,745.08			138.46	138.46	
Total Primary Government	2,595,210.86	447,019.89	1,563,469.65	(584,859.78)	138.46	(584,721.32)	
<u>Component Unit:</u>							
Mohall Housing Authority	55,730.88	42,292.30					(13,438.58)

General Revenues:

Taxes:

Property taxes; levied for general purposes
Property taxes; levied for special purposes
Sales taxes
Cigarette taxes
Oil and gas production taxes
Intergovernmental revenue not restricted
to specific programs
Earnings on investments and other revenue

183,726.72
126,887.10
81,015.32
2,369.85
97,458.72

62,041.84
137,014.97
3,421.59

183,726.72
126,887.10
81,015.32
2,369.85
97,458.72

62,041.84
140,436.56
74.85

Total General Revenues

690,514.52

74.85

Change in Net Position

105,654.74

(13,363.73)

Net Position - January 1

2,418,970.28

95,374.68

Net Position - December 31

2,524,625.02

82,010.95

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

CITY OF MOHALL
Mohall, North Dakota

Balance Sheet - Modified Cash Basis
Governmental Funds
December 31, 2016

	Major Funds					Total Governmental Funds
	General	City Sales Tax	Airport	2010 Main Street Improvement	Other Governmental Funds	
ASSETS:						
Cash and Cash Equivalents	1,308,875.16	175,389.13	166,590.97	256,367.32	336,195.49	2,243,418.07
Economic Development Loans		68,680.00				68,680.00
<hr/>						
Total Assets	1,308,875.16	244,069.13	166,590.97	256,367.32	336,195.49	2,312,098.07
<hr/> <hr/>						
FUND BALANCES:						
Nonspendable:						
Economic Development Loans		68,680.00				68,680.00
Restricted for:						
General Government					96,888.81	96,888.81
Public Safety					1,564.10	1,564.10
Urban and Economic Development		175,389.13				175,389.13
Conserv. of Natural Resources					379.16	379.16
Emergency Purposes					4,808.11	4,808.11
Airport			166,590.97			166,590.97
Infrastructure					132,508.08	132,508.08
Debt Service				256,367.32	94,760.95	351,128.27
Other Purposes					5,286.28	5,286.28
Unassigned	1,308,875.16					1,308,875.16
<hr/>						
Total Fund Balances	1,308,875.16	244,069.13	166,590.97	256,367.32	336,195.49	2,312,098.07
<hr/> <hr/>						

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

CITY OF MOHALL
Mohall, North Dakota

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
For the Year Ended December 31, 2016

Total Fund Balances for Governmental Funds	2,312,098.07
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Total net position reported for government 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	2,256,885.00	
Less Accumulated Depreciation	(975,076.00)	
Net Capital Assets		1,281,809.00

The deferred outflows and inflows of resources reported on the statement of net position are the result of changes in resources related to pensions and do not affect current financial resources.

Total Deferred Outflows of Resources	24,780.00	
Total Deferred Inflows of Resources	(38,773.00)	
Net Deferred Outflows/Inflows of Resources		(13,993.00)

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities -both current and long-term- are reported in the statement of net position. Balances at December 31, 2016 are:

Special Assessments Bonds Payable	(935,000.00)	
Compensated Absences Payable	(19,026.05)	
Net Pension Liability	(101,263.00)	
Total Long-Term Liabilities		(1,055,289.05)

Total Net Position of Governmental Activities	2,524,625.02
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The accompanying notes are an integral part of these financial statements.

CITY OF MOHALL
Mohall, North Dakota

Statement of Revenues, Expenditures and Changes in Fund Balances -
Modified Cash Basis
Governmental Funds
For the Year Ended December 31, 2016

	Major Funds					Total Governmental Funds
	General	City Sales Tax	Airport	2010 Main Street Improvement	Other Governmental Funds	
Revenues:						
Taxes	183,726.72	48,609.18	90,443.89		68,849.35	391,629.14
Special Assessments				121,077.55		121,077.55
Licenses, Permits and Fees	16,754.81					16,754.81
Intergovernmental	161,870.41		1,323,720.60		118,671.50	1,604,262.51
Charges for Services	135.00					135.00
Fines and Forfeits	1,385.00					1,385.00
Miscellaneous	19,135.07		42,724.88		75,155.02	137,014.97
Total Revenues	383,007.01	48,609.18	1,456,889.37	121,077.55	262,675.87	2,272,258.98
Expenditures:						
Current:						
General Government	221,697.27				39,382.19	261,079.46
Public Safety	30,600.00				60,489.13	91,089.13
Streets and Public Works					155,876.06	155,876.06
Culture and Recreation	5,761.74				130,399.89	136,161.63
Urban and Economic Development		45,430.00				45,430.00
Other			1,291,285.38		19,809.79	1,311,095.17
Debt Service:						
Principal Retirement				985,000.00		985,000.00
Interest and Service Charges				49,197.98		49,197.98
Total Expenditures	258,059.01	45,430.00	1,291,285.38	1,034,197.98	405,957.06	3,034,929.43
Excess (Deficiency) of Revenues Over Expenditures	124,948.00	3,179.18	165,603.99	(913,120.43)	(143,281.19)	(762,670.45)
Other Financing Sources (Uses):						
Transfers In					102,195.78	102,195.78
Transfers Out	(102,195.78)					(102,195.78)
Soecial Assess. Bonds Issued				935,000.00		935,000.00
Discount on Special Assess. Bonds				(10,107.50)		(10,107.50)
Total Other Financing Sources (Uses)	(102,195.78)			924,892.50	102,195.78	924,892.50
Net Change in Fund Balances	22,752.22	3,179.18	165,603.99	11,772.07	(41,085.41)	162,222.05
Fund Balance - January 1	1,286,122.94	240,889.95	986.98	244,595.25	377,280.90	2,149,876.02
Fund Balance - December 31	1,308,875.16	244,069.13	166,590.97	256,367.32	336,195.49	2,312,098.07

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

CITY OF MOHALL
Mohall, North Dakota

Reconciliation of Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds 162,222.05

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

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

Current Year Capital Outlay	0.00	
Current Year Depreciation Expense	(104,525.00)	(104,525.00)

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

Debt Proceeds	(935,000.00)	
Repayment of Debt	985,000.00	50,000.00

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

Net Increase in Compensated Absences	(878.31)	
Net Increase to Pension Expense	(1,164.00)	(2,042.31)

Change in Net Position of Governmental Activities 105,654.74
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The accompanying notes are an integral part of these financial statements.

CITY OF MOHALL
Mohall, North Dakota

Statement of Net Position - Modified Cash Basis
Proprietary Funds
December 31, 2016

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer	Sanitation		
ASSETS					
Current Assets:					
Cash and Cash Equivalents		47,605.86	120,914.09	70,325.62	238,845.57
Interfund Receivable			30,639.58		30,639.58
Total Current Assets		47,605.86	151,553.67	70,325.62	269,485.15
Noncurrent Assets:					
Capital Assets (net of accumulated depr):					
Land		15,910.00	18,550.00		34,460.00
Buildings and Infrastructure	139,540.00	392,834.00			532,374.00
Vehicles and Machinery				34,080.00	34,080.00
Total Noncurrent Assets	139,540.00	408,744.00	18,550.00	34,080.00	600,914.00
Total Assets	139,540.00	456,349.86	170,103.67	104,405.62	870,399.15
LIABILITIES					
Current Liabilities:					
Interfund Payable		30,639.58			30,639.58
NET POSITION					
Net Investment in Capital Assets	139,540.00	408,744.00	18,550.00	34,080.00	600,914.00
Restricted for:					
Maintenance and Repairs				70,325.62	70,325.62
Unrestricted	(30,639.58)	47,605.86	151,553.67		168,519.95
Total Net Position	108,900.42	456,349.86	170,103.67	104,405.62	839,759.57

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

CITY OF MOHALL
Mohall, North Dakota

Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis
Proprietary Funds

For the Year Ended December 31, 2016

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer	Sanitation		
<u>Operating Revenues:</u>					
<u>Charges for Sales and Services:</u>					
Water Charges	182,871.81				182,871.81
Sewer Charges		72,884.70			72,884.70
Garbage Charges			146,035.92		146,035.92
Utility Surcharge				16,029.74	16,029.74
Landfill Fees			10,922.91		10,922.91
Total Operating Revenues	182,871.81	72,884.70	156,958.83	16,029.74	428,745.08
<u>Operating Expenses:</u>					
Water	211,579.12				211,579.12
Sewer		43,130.15			43,130.15
Sanitation			151,089.50		151,089.50
Miscellaneous				67.85	67.85
Depreciation	8,371.00	10,109.00		4,260.00	22,740.00
Total Operating Expenses	219,950.12	53,239.15	151,089.50	4,327.85	428,606.62
Operating Income (Loss)	(37,078.31)	19,645.55	5,869.33	11,701.89	138.46
<u>Non-Operating Revenues:</u>					
Interest Income		69.73	322.31	132.22	524.26
Miscellaneous Revenues	2,747.33	120.00	30.00		2,897.33
Total Non-Operating Revenues	2,747.33	189.73	352.31	132.22	3,421.59
Change in Net Position	(34,330.98)	19,835.28	6,221.64	11,834.11	3,560.05
Net Position - January 1	143,231.40	436,514.58	163,882.03	92,571.51	836,199.52
Net Position - December 31	108,900.42	456,349.86	170,103.67	104,405.62	839,759.57

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

CITY OF MOHALL
Mohall, North Dakota

Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2016

	Major Enterprise Funds			Other Enterprise Fund	Total Enterprise Funds
	Water	Sewer	Sanitation		
<u>Cash flows from operating activities:</u>					
Receipts from customers	182,871.81	72,884.70	156,958.83	16,029.74	428,745.08
Payments to employees and suppliers	(211,579.12)	(43,130.15)	(151,089.50)	(67.85)	(405,866.62)
Net cash provided (used) by operating activities	(28,707.31)	29,754.55	5,869.33	15,961.89	22,878.46
<u>Cash flows from noncapital financing activities:</u>					
Miscellaneous receipts	2,747.33	120.00	30.00		2,897.33
Interfund loan transaction	25,959.98		(25,959.98)		
Net cash provided (used) by noncapital financing activities	28,707.31	120.00	(25,929.98)		2,897.33
<u>Cash flows from investing activities:</u>					
Interest income		69.73	322.31	132.22	524.26
Net increase in cash and cash equivalents	0.00	29,944.28	(19,738.34)	16,094.11	26,300.05
Cash and cash equivalents, January 1	-0-	17,661.58	140,652.43	54,231.51	212,545.52
Cash and cash equivalents, December 31	-0-	47,605.86	120,914.09	70,325.62	238,845.57
=====					
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>					
Operating income (loss)	(37,078.31)	19,645.55	5,869.33	11,701.89	138.46
<u>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</u>					
Depreciation expense	8,371.00	10,109.00		4,260.00	22,740.00
Net cash provided (used) by operating activities	(28,707.31)	29,754.55	5,869.33	15,961.89	22,878.46
=====					

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

CITY OF MOHALL
Mohall, North Dakota

Notes to the Financial Statements
December 31, 2016

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

Based on these criteria, the following is a brief review of each potential component unit addressed defining the government's reporting entity.

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

Mohall Housing Authority: The Mohall Housing Authority's governing board is appointed by the city's governing board. The housing authority has the authority to issue its own debt.

The financial statements of the discretely presented component unit are presented in the basic financial statements.

B. Basis of Presentation

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

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

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

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

The city reports the following major governmental funds:

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

City Sales Tax. This fund accounts for the city's sales tax collections which are used for urban and economic development.

Airport. This fund accounts for a special tax levy to fund operations of the city's airport.

2010 Main Street Improvement. This fund is used to accumulate resources to repay the principal and interest of the Refunding Improvement Bonds, Series 2016.

The city reports the following major enterprise funds:

Water. This fund accounts for the activities of the city's water distribution system.

Sewer. This fund accounts for the activities of the city's sewage collection system.

Sanitation. This fund accounts for the activities of the city's garbage collection system.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

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

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

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and money market accounts.

E. Capital Assets

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

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

Buildings and Infrastructure	25 to 50 years
Machinery and Vehicles	5 to 15 years

F. Compensated Absences

Vested or accumulated vacation leave and vested sick leave are reported in the government-wide statement of net position. Compensation for unused vacation leave up to a maximum of 240 hours and 10% of accumulated sick leave will be granted to city employees upon termination of employment with the city.

G. Long-Term Obligations

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

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

H. Pension

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

I. Fund Equity

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

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

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

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

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

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

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

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

- * Committed
- * Assigned
- * Unassigned

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

J. Interfund Transactions

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

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

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

K. Use of Estimates

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

Note 2 DEPOSITS AND INVESTMENTS

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

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

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

At December 31, 2016 the city's carrying amount of deposits was \$2,482,264 and the bank balance was \$2,533,856. Of the bank balance, \$266,222 was covered by Federal Depository Insurance. The remaining balance of \$2,267,634 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

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

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

Concentration of Credit Risk

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

Note 3 PROPERTY TAXES

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

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

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

Note 4 ECONOMIC DEVELOPMENT LOANS

Economic development loans consist of loans to area businesses. The following amounts are outstanding at December 31, 2016:

City Sales Tax Fund

<u>Borrower</u>	
Burger Shack	3,400.00
Johnson Pump Service	500.00
Spin City Laundry & Tanning	5,300.00
Tracy's Market	11,000.00
Tuffy's	10,000.00
Northern Diesel & Tire	10,000.00
Heisler Auto	9,600.00
Mohall Country Club	3,000.00
The Naked Moose	3,800.00
Strandberg Auto	2,500.00
Ye Old Donut Shoppe	2,000.00
Rustic Ronnies	4,580.00
Southam Family Holdings	3,000.00
 Total	 <u>68,680.00</u> =====

Note 5 INTERFUND RECEIVABLES/PAYABLES

Interfund receivables/payables are created by negative cash balances in various funds. The amounts shown as interfund payables represent the amounts of negative cash in the funds. Interfund receivables/payables for the year ended December 31, 2016 are as follows:

	<u>Receivable Fund</u>	<u>Payable Fund</u>
Sanitation	30,639.58	
Water		30,639.58

Note 6 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	18,000			18,000
<hr/>				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,713,922			1,713,922
Machinery and Vehicles	524,963			524,963
Total	2,238,885			2,238,885
<hr/>				
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	632,266	66,972		699,238
Machinery and Vehicles	238,285	37,553		275,838
Total	870,551	104,525		975,076
<hr/>				
Total capital assets being depreciated, net	1,368,334	(104,525)		1,263,809
<hr/>				
Governmental Activities Capital Assets, Net	1,386,334	(104,525)	-0-	1,281,809
<hr/> <hr/>				

	Balance <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>December 31</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	34,460			34,460
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,710,747			1,710,747
Machinery and Vehicles	81,390			81,390
Total	<u>1,792,137</u>			<u>1,792,137</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	1,159,893	18,480		1,178,373
Machinery and Vehicles	43,050	4,260		47,310
Total	<u>1,202,943</u>	<u>22,740</u>		<u>1,225,683</u>
Total capital assets being depreciated, net	589,194	(22,740)		566,454
Business-type Activities Capital Assets, Net	<u>623,654</u>	<u>(22,740)</u>	-0-	<u>600,914</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
	<u>January 1</u>			<u>December 31</u>
Discretely Presented Component Unit:				
<i>Capital assets being depreciated:</i>				
Buildings and Infrastructure	1,040,000			1,040,000
<i>Less accumulated depreciation for:</i>				
Buildings and Infrastructure	77,601	13,867		91,468
Discretely Presented Component Unit Capital Assets, Net	<u>962,399</u>	<u>(13,867)</u>	-0-	<u>948,532</u>

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

<u>Governmental Activities:</u>	
Streets and Public Works	95,125
Other	9,400
Total	<u>104,525</u> =====
<u>Business-type Activities:</u>	
Water	8,371
Sewer	10,109
Water Sewer Surcharge	4,260
Total	<u>22,740</u> =====
<u>Discretely Presented Component Unit:</u>	
Mohall Housing Authority	13,867
	<u>13,867</u> =====

Note 7 LONG-TERM DEBT

Changes in Long-Term Liabilities. During the year ended December 31, 2016, the following changes occurred in liabilities reported in the long-term liabilities of the city:

<u>Governmental Activities:</u>					
	<u>Balance</u>		<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>		<u>December 31</u>	<u>One Year</u>
Special Assmt. Bonds	985,000	935,000	985,000	935,000	95,000
Comp. Absences *	18,148	878		19,026	
Total	<u>1,003,148</u>	<u>935,878</u>	<u>985,000</u>	<u>954,026</u>	<u>95,000</u>
	=====	=====	=====	=====	=====

* The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of increases and decreases.

<u>Discretely Presented Component Unit:</u>					
	<u>Balance</u>		<u>Decreases</u>	<u>Balance</u>	<u>Due Within</u>
	<u>January 1</u>	<u>Increases</u>		<u>December 31</u>	<u>One Year</u>
Revenue Bonds	956,713	-0-	20,149	936,564	20,785
	=====	=====	=====	=====	=====

Outstanding debt at December 31, 2016 consists of the following:

Governmental Activities:

Special Assessment Bond Debt. The city has issued special assessment bonds to provide funds for the refinancing of the Refunding Improvement Bond of 2010. Special assessment bonds outstanding at December 31, 2016 are as follows:

\$935,000 Refunding Improvement Bonds, Series 2016 due in annual installments of \$95,000 to \$110,000 through May 1, 2025; interest is at .75% to 1.95%.	935,000
	<u>935,000</u> =====

The annual requirements to amortize the outstanding special assessment bond debt are as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	95,000	12,686
2018	100,000	11,855
2019	100,000	10,830
2020	100,000	9,680
2021	105,000	8,345
2022-2025	435,000	15,890
Total	935,000	69,286
	935,000	69,286

Discretely Presented Component Unit:

Revenue Bonds. The housing authority has issued bonds for the purpose of providing affordable housing in the city. Revenue bonds outstanding at December 31, 2016 are as follows:

\$540,000 Multifamily Housing Revenue Bonds, Series 2008 due in monthly installments of \$2,412.84 through 2043; payments include interest at 4%.	470,604
\$500,000 Multifamily Housing Revenue Bonds, Series 2012 due in monthly installments of \$1,737.00 through 2048; payments include interest at 2.25%.	465,960
	936,564
	936,564

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

<u>Year Ending</u> <u>December 31</u>	<u>Principal</u>	<u>Interest</u>
2017	20,785	29,015
2018	21,443	28,356
2019	22,124	27,676
2020	22,828	26,972
2021	23,556	26,244
2022-2026	129,616	119,383
2027-2031	152,002	96,998
2032-2036	178,589	70,409
2037-2041	210,220	38,778
2042-2046	132,755	8,948
2047-2048	22,646	298
Total	936,564	473,077
	936,564	473,077

Note 8 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2016:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Highway Distribution	22,172.15	
Employee Pension	21,526.25	
Social Security	15,495.61	
Library	43,001.77	
General Fund		102,195.78

To subsidize expenditures.

Note 9 DEFICIT FUND BALANCES

The following funds had deficit balances at December 31, 2016:

<u>Enterprise Fund</u>	
Water	(30,639.58)

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

Note 10 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The city pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$799,291 for public assets.

The city also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$1,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the city with a blanket fidelity bond coverage in the amount of \$748,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

Note 11 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

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.

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

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

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

At December 31, 2016, the City of Mohall reported a liability of \$101,263 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The city's proportion of the net pension liability was based on the city's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015 the city's proportion was .014892 percent, which was a decrease of .002551 from its proportion measured as of June 30, 2014.

For the year ended December 31, 2016 the city recognized pension expense of \$6,458. At December 31, 2016 the city reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	Deferred Outflows of Resources -----	Deferred Inflows of Resources -----
Differences between expected and actual experience	2,938	
Changes in assumptions		9,022
Net difference between projected and actual earnings on pension plan investments	11,701	13,838
Changes in proportion and differences between employer contributions and proportionate share of contributions		15,913
City contributions subsequent to the measurement date (see below)	10,141	
Total	----- 24,780 -----	----- 38,773 -----

\$10,141 reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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

Year ended June 30: -----	
2017	(5,937)
2018	(5,937)
2019	(5,937)
2020	(1,520)
2021	(4,806)
Thereafter	0

Actuarial assumptions. The total pension liability in the July 1, 2015 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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Morality Table with ages set back one year for males (not set back for females).

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Equity Income	5%	0.45%
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, 2015. 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, 2015, 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, 2015. 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, 2015.

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

	1% Decrease (7%)	Current Rate (8%)	1% Increase (9%)
	-----	-----	-----
The city's proportionate share of the net pension liability	155,282	101,263	57,066

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

CITY OF MOHALL
Mohall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
General Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	185,139.00	185,139.00	183,726.72	(1,412.28)
Licenses, Permits and Fees	2,550.00	2,550.00	16,754.81	14,204.81
Intergovernmental	212,500.00	212,500.00	161,870.41	(50,629.59)
Charges for Services	5,000.00	5,000.00	135.00	(4,865.00)
Fines and Forfeits	1,000.00	1,000.00	1,385.00	385.00
Miscellaneous	64,700.00	64,700.00	19,135.07	(45,564.93)
Total Revenues	470,889.00	470,889.00	383,007.01	(87,881.99)
<u>Expenditures:</u>				
Current:				
General Government	233,300.00	233,300.00	221,697.27	11,602.73
Public Safety	30,600.00	30,600.00	30,600.00	
Culture and Recreation	9,700.00	9,700.00	5,761.74	3,938.26
Total Expenditures	273,600.00	273,600.00	258,059.01	15,540.99
Excess (Deficiency) of Revenues Over Expenditures	197,289.00	197,289.00	124,948.00	(72,341.00)
<u>Other Financing (Uses):</u>				
Transfers Out	(300,000.00)	(300,000.00)	(102,195.78)	197,804.22
Net Change in Fund Balances	(102,711.00)	(102,711.00)	22,752.22	125,463.22
Fund Balance - January 1	1,286,122.94	1,286,122.94	1,286,122.94	
Fund Balance - December 31	1,183,411.94	1,183,411.94	1,308,875.16	125,463.22

CITY OF MOHALL
Mohall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
City Sales Tax Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	60,000.00	60,000.00	48,609.18	(11,390.82)
<u>Expenditures:</u>				
Current:				
Urban and Economic Development	50,000.00	50,000.00	45,430.00	4,570.00
Net Change in Fund Balances	10,000.00	10,000.00	3,179.18	(6,820.82)
Fund Balance - January 1	240,889.95	240,889.95	240,889.95	
Fund Balance - December 31	250,889.95	250,889.95	244,069.13	(6,820.82)

CITY OF MOHALL
Mohall, North Dakota

Budgetary Comparison Schedule - Modified Cash Basis
Airport Fund
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	9,020.00	9,020.00	90,443.89	81,423.89
Intergovernmental	716,769.00	716,769.00	1,323,720.60	606,951.60
Miscellaneous	24,100.00	24,100.00	42,724.88	18,624.88
Total Revenues	749,889.00	749,889.00	1,456,889.37	707,000.37
<u>Expenditures:</u>				
Current:				
Other	147,000.00	147,000.00	1,291,285.38	(1,144,285.38)
Net Change in Fund Balances	602,889.00	602,889.00	165,603.99	(437,285.01)
Fund Balance - January 1	986.98	986.98	986.98	
Fund Balance - December 31	603,875.98	603,875.98	166,590.97	(437,285.01)

CITY OF MOHALL
Mohall, North Dakota

Notes to the Budgetary Comparison Schedules
December 31, 2016

Note 1 SUMMARY OF SIGNIFICANT BUDGET POLICIES

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

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

Note 2 LEGAL COMPLIANCE

The governing board did not amend the city's budget for the year ending December 31, 2016.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following fund for the year ending December 31, 2016:

<u>Special Revenue Funds</u>	
Airport	1,144,285.38
Fire Department	51,689.13
* SB2103 Surge Money	38,004.37
* City Share of Special Assessments	3,906.92
* Public Buildings	4,900.40
* Employee Pension	21,734.88
* Advertising	541.40
* Social Security	15,830.11
Library	75,401.77
* Planning	1,275.80
Infrastructure	16,800.25
 <u>Debt Service Fund</u>	
2010 Main Street Imp.	913,247.98

* A budget was not prepared for this fund.

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

CITY OF MOHALL
Mohall, North Dakota

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

	2015	2016
	-----	-----
City's proportion of the net pension liability	0.017443%	0.014892%
City's proportionate share of the net pension liability	110,714	101,263
City's covered-employee payroll	146,936	137,583
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	75.35%	73.60%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

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

	2015	2016
	-----	-----
Statutorily required contribution	9,747	9,796
Contributions in relation to the statutorily required contribution	(9,747)	(9,796)
Contribution deficiency (excess)	0	0
City's covered-employee payroll	146,936	137,583
Contributions as a percentage of covered-employee payroll	6.63%	7.12%

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

- For changes of assumptions, see Note 11 to the financial statements.

CITY OF MOHALL
Mohall, North Dakota

Schedule of Fund Activity
Arising from Cash Transactions
For the Year Ended December 31, 2016

	Balance 1-1-16	Receipts	Transfers In	Transfers Out	Disbursements	Balance 12-31-16
Major Governmental Funds						
General Fund	1,216,309.35	452,820.60		102,195.78	258,059.01	1,308,875.16
City Sales Tax	161,589.95	73,929.18			60,130.00	175,389.13
Airport	70,800.57	1,456,889.37			1,361,098.97	166,590.97
2010 Main Street Improvement	244,595.25	1,045,970.05			1,034,197.98	256,367.32
Total Major Governmental Funds	1,693,295.12	3,029,609.20		102,195.78	2,713,485.96	1,907,222.58
Non-Major Governmental Funds						
Fire Department	4,718.25	57,334.98			60,489.13	1,564.10
SB2103 Surge Money	138,367.66	2,015.34			38,004.37	102,378.63
Highway Distribution	188.13	74,209.28	22,172.15		96,569.56	
City Share of Special Assmt.	94,903.67	194.17			3,906.92	91,190.92
Special Assessment Deficiency	46,871.60	99.85				46,971.45
Emergency	(17,843.43)	22,651.54				4,808.11
Cemetery	(310.64)	11,689.00			11,002.47	375.89
Public Building	9,749.66	19.81			4,900.40	4,869.07
Employee Pension	208.63		21,526.25		21,734.88	
Insurance Reserve	327.30	0.69				327.99
Advertising	985.84	1.76			541.40	446.20
Social Security	334.50		15,495.61		15,830.11	
Library	211.93	51,688.07	43,001.77		94,901.77	
Planning Commission	6,187.66	11.84			1,275.80	4,923.70
Forestry	378.75	0.41				379.16
Infrastructure	45,051.32	41,878.38			56,800.25	30,129.45
CDBG Funds	41.32					41.32
Street Improvement 2004	46,908.75	880.75				47,789.50
Total Non-Major Governmental Funds	377,280.90	262,675.87	102,195.78		405,957.06	336,195.49
Total Governmental Funds	2,070,576.02	3,292,285.07	102,195.78	102,195.78	3,119,443.02	2,243,418.07
Major Enterprise Funds						
Water	(4,679.60)	185,619.14			211,579.12	(30,639.58)
Sewer	17,661.58	73,074.43			43,130.15	47,605.86
Sanitation	145,332.03	157,311.14			151,089.50	151,553.67
Total Major Enterprise Funds	158,314.01	416,004.71			405,798.77	168,519.95
Non-Major Enterprise Fund						
Water Sewer Surcharge	54,231.51	16,161.96			67.85	70,325.62
Total Enterprise Funds	212,545.52	432,166.67			405,866.62	238,845.57
Total Primary Government	2,283,121.54	3,724,451.74	102,195.78	102,195.78	3,525,309.64	2,482,263.64
Discretely Presented Component Unit						
Mohall Housing Authority	89,688.68	42,367.15			62,012.88	70,042.95
Total Reporting Entity	2,372,810.22	3,766,818.89	102,195.78	102,195.78	3,587,322.52	2,552,306.59

CITY OF MOHALL
Mohall, North Dakota

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Expenditures
<u>U.S. Department of Transportation</u>			
Direct Program:			
Airport Improvement Program	20.106	3-38-0038-009-2013	5,551.00
		3-38-0038-010-2014	27,732.62
		3-38-0038-011-2015	1,037,268.00
Total Expenditures of Federal Awards			1,070,551.62

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

The de minimis indirect cost rate was not used.

Rath & Mehner

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Specializing in Governmental Auditing

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

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Mohall
Mohall, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Mohall, Mohall, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the city's basic financial statements, and have issued our report thereon dated January 20, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

City's Response to Findings

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

Purpose of this Report

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

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

January 20, 2017

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Mohall
Mohall, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Mohall's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the city's major federal programs for the year ended December 31, 2016. The city's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the city's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the city's compliance.

Opinion on Each Major Federal Program

In our opinion, the city complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the City of Mohall is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the city's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the city's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rath and Mehrer

Rath and Mehrer, P.C.

Bismarck, North Dakota

January 20, 2017

CITY OF MOHALL
Mohall, North Dakota

Schedule of Findings and Responses
For the Year Ended December 31, 2016

SECTION I - SUMMARY OF AUDIT RESULTS:

Financial Statements

Type of Auditor's Report Issued:

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

Internal control over financial reporting:

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Noncompliance Material to financial
statements noted? Yes No

Federal Awards

Internal control over major program(s):

* Material weakness(es) identified? Yes No

* Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on
compliance for major program(s):

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)?

Yes No

Identification of major program(s):

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish
between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS:

Significant Deficiencies

1. Segregation of Duties

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

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

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

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

Client Response: No response is considered necessary.

2. Financial Statement Preparation

Condition: The city's financial statements as of December 31, 2016 are prepared by the city's external auditors.

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

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

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

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

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.