

**FINANCIAL STATEMENTS**

**CITY OF PARK RIVER  
Park River, North Dakota**

*For the Year Ended*  
**DECEMBER 31, 2016**

Prepared By

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

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
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**December 31, 2016**

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**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**LIST OF OFFICIALS**  
**December 31, 2016**

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Dan Stenvold	Mayor
Robert Lundquist III	Council Member
Arvid Knutson	Council Member
Dwight Byron	Council Member
Mike Lorton	Council Member
Kyle Halvorson	Council Member
Keith Anderson	Council Member
Ann Berg (January 2016 to August 2016)	Auditor
Nancy Thompson (August 2016 to December 2016)	Auditor
Jolene Halldorson (January 2016 to August 2016)	City Coordinator
Nancy Thompson (August 2016 to December 2016)	City Coordinator
Tracy Laaveg	City Attorney



Accounting For Success

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
City of Park River, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Park River, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## **Opinions**

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

## **Basis of Accounting**

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

## **Other Matters**

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of Employer's Share of Net Pension Liability, and Schedule of Employer's Contributions as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Park River, North Dakota's basic financial statements. The combining and individual non-major fund financial statement is presented for purposes of additional analysis and are not a required part of the financial statements.

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

the combining and individual non-major fund financial statements 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 July 24, 2017, on our consideration of the City of Park River, North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Park River, North Dakota's internal control over financial reporting and compliance.



Mortenson & Rygh  
Certified Public Accountants  
Park River, North Dakota

July 24, 2017

## **BASIC FINANCIAL STATEMENTS**

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Net Position – Modified Cash Basis**  
**December 31, 2016**

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Housing Authority	Airport
<b>ASSETS:</b>					
<b>CURRENT ASSETS</b>					
Cash & Cash Equivalents	\$ 1,083,604	\$ 2,786,524	\$ 3,870,128	\$ 5,914	\$ 67,165
Certificates of Deposits	568,260	-	568,260	39,821	-
<b>Total Current Assets</b>	<b>1,651,864</b>	<b>2,786,524</b>	<b>4,438,388</b>	<b>45,760</b>	<b>67,165</b>
<b>CAPITAL ASSETS:</b>					
Capital Assets net of Accumulated Depreciation	3,101,070	11,973,576	15,074,645	892,807	1,050,735
<b>Total Capital Assets</b>	<b>3,101,070</b>	<b>11,973,576</b>	<b>15,074,645</b>	<b>892,807</b>	<b>1,050,735</b>
<b>OTHER ASSETS:</b>					
Loans Receivable	180,139	-	180,139	-	-
Interfund Balances	73,290	(73,290)	-	-	-
<b>Total Other Assets</b>	<b>253,429</b>	<b>(73,290)</b>	<b>180,139</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 5,006,362</b>	<b>\$ 14,686,809</b>	<b>\$ 19,693,171</b>	<b>\$ 938,567</b>	<b>\$ 1,117,899</b>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>CURRENT LIABILITIES</b>					
Customer Deposits	\$ -	\$ 87,803	\$ 87,803	\$ -	\$ -
Current Maturity on Long Term Debt	343,223	300,222	643,445	17,867	-
<b>Total Current Liabilities</b>	<b>343,223</b>	<b>388,025</b>	<b>731,248</b>	<b>17,867</b>	<b>-</b>
<b>NON CURRENT LIABILITIES</b>					
Bonds Payable	2,725,152	5,208,485	7,933,637	983,452	-
Capital Lease Payable	15,579	-	15,579	-	-
Less: Current Maturity on Long Term Debt	(343,223)	(300,222)	(643,445)	(17,867)	-
<b>Total Non Current Liabilities</b>	<b>2,397,508</b>	<b>4,908,263</b>	<b>7,305,771</b>	<b>965,585</b>	<b>-</b>
<b>Total Liabilities</b>	<b>2,740,731</b>	<b>5,296,288</b>	<b>8,037,019</b>	<b>983,452</b>	<b>-</b>
<b>Net Position</b>					
Net investment in capital assets	360,339	6,533,211	6,893,549	(90,645)	1,050,735
Restricted For:					
Debt Service	377,762	1,044,836	1,422,599	39,821	-
Capital Projects	713,528	431,849	1,145,377	-	-
Economic Development	616,099	-	616,099	-	-
Equipment Replacement	96,511	312,232	408,743	-	-
Special Revenue Funds	87,005	-	87,005	-	-
Unrestricted	14,387	1,068,394	1,082,781	5,939	67,165
<b>Total Net Position</b>	<b>2,265,631</b>	<b>9,390,521</b>	<b>11,656,152</b>	<b>(44,884)</b>	<b>1,117,899</b>
<b>Total Liabilities &amp; Net Position</b>	<b>\$ 5,006,362</b>	<b>\$ 14,686,809</b>	<b>\$ 19,693,171</b>	<b>\$ 938,567</b>	<b>\$ 1,117,899</b>

The notes to the financial statements are an integral part of this statement.



**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Activities – Modified Cash Basis**  
**December 31, 2016**

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Change in Net Position					
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business Type Activities	Total	Housing Authority	Airport	
Government Activities:										
General Government	\$ 124,825	\$ 17,089	\$ -	\$ -	\$ (107,736)	\$ -	\$ (107,736)			
Public Safety	179,940	-	-	-	(179,940)	-	(179,940)			
Public Works	287,374	-	81,627	4,718	(201,029)	-	(201,029)			
Economic Development	46,408	-	-	-	(46,408)	-	(46,408)			
Interest Expense & Fees	82,969	-	-	-	(82,969)	-	(82,969)			
<b>Total Government Activities</b>	<b>721,517</b>	<b>17,089</b>	<b>81,627</b>	<b>4,718</b>	<b>(618,082)</b>	<b>-</b>	<b>(618,082)</b>			
Business Type Activities:										
Utility Systems	3,180,983	3,385,348	-	3,804	-	208,170	208,170			
Bond Issuance Costs	43,227	-	-	-	-	(43,227)	(43,227)			
<b>Total Business Type Activities</b>	<b>3,224,210</b>	<b>3,385,348</b>	<b>-</b>	<b>3,804</b>	<b>-</b>	<b>164,942</b>	<b>164,942</b>			
<b>Total Primary Government</b>	<b>\$ 3,945,727</b>	<b>\$ 3,402,437</b>	<b>\$ 81,627</b>	<b>\$ 8,522</b>	<b>\$ (618,082)</b>	<b>\$ 164,942</b>	<b>\$ (453,140)</b>			
Component Units:										
Housing Authority	\$ 89,987	\$ 71,000	\$ -	\$ -				\$ (18,987)	\$ -	
Airport	79,153	-	-	59,955				-	(19,198)	
<b>Total Component Units</b>	<b>\$ 169,140</b>	<b>\$ 71,000</b>	<b>\$ -</b>	<b>\$ 59,955</b>				<b>\$ (18,987)</b>	<b>\$ (19,198)</b>	
<b>General Receipts:</b>										
Taxes:										
Property taxes, levied for general purposes					\$ 153,151	\$ -	\$ 153,151	\$ -	\$ 7,148	
Property taxes, levied for special purposes					269,548	-	269,548	-	-	
Sales taxes					370,594	-	370,594	-	-	
Federal & State Aid not restricted to special purposes					99,596	-	99,596	-	-	
Earnings on Investments					6,366	8,897	15,263	221	1,469	
Other Receipts					17,605	3,145	20,750	-	-	
<b>Total General Receipts</b>					<b>916,859</b>	<b>12,042</b>	<b>928,901</b>	<b>221</b>	<b>8,617</b>	
Transfers - Net					130,716	(130,716)	-	-	-	
Change in Net Position					429,493	46,268	475,761	(18,767)	(10,581)	
<b>Net Position - Beginning</b>					<b>1,836,138</b>	<b>9,344,252</b>	<b>11,180,390</b>	<b>(26,118)</b>	<b>1,128,480</b>	
<b>Net Position - Ending</b>					<b>\$ 2,265,631</b>	<b>\$ 9,390,521</b>	<b>\$ 11,656,152</b>	<b>\$ (44,884)</b>	<b>\$ 1,117,899</b>	

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Balance Sheet - Modified Cash Basis - Governmental Funds**  
**December 31, 2016**

<b>ASSETS:</b>	General Fund	1% Sales Tax Fund	Hospital Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b>CURRENT ASSETS</b>					
Cash & Cash Equivalents	\$ 14,387	\$ 359,668	\$ 223,026	\$ 486,523	\$ 1,083,604
Certificates of Deposits	-	418,149	150,111	-	568,260
Due from Other Governmental Unit	-	-	-	-	-
<b>Total Current Assets</b>	<b>14,387</b>	<b>777,817</b>	<b>373,137</b>	<b>486,523</b>	<b>1,651,864</b>
<b>OTHER ASSETS</b>					
Loan Receivable	-	180,139	-	-	180,139
Interfund Balances	-	146,499	-	(73,209)	73,290
<b>Total Other Assets &amp; Debits</b>	<b>-</b>	<b>326,637</b>	<b>-</b>	<b>(73,209)</b>	<b>253,429</b>
<b>Total Assets</b>	<b>\$ 14,387</b>	<b>\$ 1,104,454</b>	<b>\$ 373,137</b>	<b>\$ 413,314</b>	<b>\$ 1,905,293</b>
<b>LIABILITIES AND FUND BALANCE:</b>					
<b>CURRENT LIABILITIES</b>					
Current Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE</b>					
<b>Non-Spendable</b>					
Loans Receivable	-	180,139	-	-	180,139
<b>Restricted For</b>					
Debt Service	-	-	150,111	287,237	437,348
Capital Projects	-	502,717	223,026	-	725,743
Economic Development	-	421,599	-	14,362	435,961
Equipment Replacement	-	-	-	96,511	96,511
Special Revenue Funds	-	-	-	87,005	87,005
<b>Unassigned, Reported In:</b>					
General Fund	14,387	-	-	-	14,387
Negative	-	-	-	(71,801)	(71,801)
<b>Total Fund Balance</b>	<b>14,387</b>	<b>1,104,454</b>	<b>373,137</b>	<b>413,314</b>	<b>1,905,293</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>\$ 14,387</b>	<b>\$ 1,104,454</b>	<b>\$ 373,137</b>	<b>\$ 413,314</b>	<b>\$ 1,905,293</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position –**  
**Modified Cash Basis**  
**December 31, 2016**

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Total *Fund Balance* for Governmental Funds \$ 1,905,293

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

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

Cost of Capital Assets	3,907,212	
Less: Accumulated Depreciation	(806,142)	
Net Capital Assets	3,101,070	3,101,070

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

Bonds Payable	(2,725,152)	
Capital Lease Payable	(15,579)	
Total Long-Term Liabilities	(2,740,731)	(2,740,731)

Total Net Position - Governmental Activities		\$ 2,265,631
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**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis**  
**Governmental Funds**  
**December 31, 2016**

	General Fund	1% Sales Tax Fund	Hospital Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
<b><u>Receipts:</u></b>					
Taxes	\$ 143,902	\$ 185,297	\$ 185,297	\$ 278,797	\$ 793,292
Licenses & Permits	10,424	-	-	-	10,424
Intergovernmental Sources	99,596	-	-	86,345	185,941
Earnings on Investments	2,738	2,737	417	473	6,366
Other Sources	12,134	7,180	-	4,956	24,271
<b>Total Receipts</b>	<b>\$ 268,794</b>	<b>\$ 195,214</b>	<b>\$ 185,714</b>	<b>\$ 370,571</b>	<b>\$ 1,020,293</b>
<b><u>Disbursements:</u></b>					
<b>Current:</b>					
General Government	\$ 99,538	\$ -	\$ -	\$ 557	\$ 100,095
Public Safety	168,277	-	-	-	168,277
Public Works	127,017	-	-	86,090	213,106
Economic Development	-	46,369	39	-	46,408
<b>Capital Outlay</b>	<b>38,145</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,145</b>
<b>Debt Service:</b>					
Principal	-	-	86,471	251,725	338,196
Interest	-	-	3,788	79,181	82,969
<b>Total Disbursements</b>	<b>432,976</b>	<b>46,369</b>	<b>90,298</b>	<b>417,552</b>	<b>987,196</b>
Excess Receipts over (under) Disbursements	(164,182)	148,845	95,416	(46,981)	33,098
<b><u>Other Financing Sources (Uses):</u></b>					
Transfers In	162,986	-	-	37,000	199,986
Transfers Out	(20,000)	(17,000)	-	(32,270)	(69,270)
<b>Total Other Financing Sources (Uses)</b>	<b>142,986</b>	<b>(17,000)</b>	<b>-</b>	<b>4,730</b>	<b>130,716</b>
<b>Net Change in Fund Balances</b>	<b>\$ (21,196)</b>	<b>\$ 131,845</b>	<b>\$ 95,416</b>	<b>\$ (42,251)</b>	<b>\$ 163,814</b>
<b>Fund Balance - January 1</b>	<b>35,583</b>	<b>939,634</b>	<b>277,721</b>	<b>488,541</b>	<b>1,741,479</b>
<b>Restatements</b>	<b>-</b>	<b>32,975</b>	<b>-</b>	<b>(32,975)</b>	<b>-</b>
<b>Fund Balance - January 1 as Restated</b>	<b>35,583</b>	<b>972,609</b>	<b>277,721</b>	<b>455,566</b>	<b>1,741,479</b>
<b>Fund Balance - December 31</b>	<b>\$ 14,387</b>	<b>\$ 1,104,454</b>	<b>\$ 373,137</b>	<b>\$ 413,314</b>	<b>\$ 1,905,293</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes**  
**in Fund Balance to the Statement of Activities – Modified Cash Basis**  
**December 31, 2016**

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Net change in *Fund Balance* - Total Governmental Funds \$ 163,814

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

Governmental funds report capital outlays as expenses. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 *are* capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital capital outlays exceeded depreciation in the current period.

Capital Asset Additions	38,145	
Current Year Depreciation Expense	<u>(110,661)</u>	(72,517)

Repayment of debt principle is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of debt principal paid during the year. 338,196

**Change in Governmental Activities** \$ 429,493

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Net Position – Modified Cash Basis - Proprietary Funds**  
**December 31, 2016**

	Electric Fund	Water Fund	Garbage Fund	Sewer Fund	Other Funds	Total Enterprise Funds
<b>Assets</b>						
Current Assets						
Cash & Cash Equivalents	\$ 271,748	\$ 1,651,243	\$ 178,258	\$ 479,719	\$ 205,556	\$ 2,786,524
Due from Other Funds	40,000	120,127	-	60,530		220,657
Total Current Assets	311,748	1,771,370	178,258	540,249	205,556	3,007,181
Noncurrent Assets						
Capital Assets net of Accumulated Depreciation	1,056,966	10,223,360	-	693,250	-	11,973,576
Total Noncurrent Assets	1,056,966	10,223,360	-	693,250	-	11,973,576
Total Assets	\$ 1,368,714	\$ 11,994,729	\$ 178,258	\$ 1,233,499	\$ 205,556	\$ 14,980,756
<b>Liabilities &amp; Net Position:</b>						
Current Liabilities						
Due to Other Funds	\$ -	\$ 196,757	\$ -	\$ 57,190	\$ 40,000	\$ 293,947
Customer Deposits	22,616	65,188	-	-	-	87,803
Current Portion of Long Term Debt	75,000	178,418	-	46,804	-	300,222
Total Current Liabilities	97,616	440,363	-	103,994	40,000	681,972
Non-Current Liabilities						
Bonds Payable	600,000	4,005,189	-	603,296	-	5,208,485
Less: Current Portion of Long Term Debt	(75,000)	(178,418)	-	(46,804)	-	(300,222)
Total Non Current Liabilities	525,000	3,826,771	-	556,492	-	4,908,263
Total Liabilities	622,616	4,267,134	-	660,485	40,000	5,590,235
<b>Net Position:</b>						
Invested in Capital Assets, net of related debt	456,966	6,039,801	-	36,444	-	6,533,211
Restricted for Capital Projects	-	297,910	-	133,939	-	431,849
Restricted For Debt Service	103,617	941,219	-	-	-	1,044,836
Restricted for Equipment Replacement		150,783			161,449	312,232
Unrestricted Net Position	185,516	297,882	178,258	402,631	4,107	1,068,394
Total Net Position	746,098	7,727,595	178,258	573,014	165,556	9,390,521
Total Liabilities & Net Position	\$ 1,368,714	\$ 11,994,729	\$ 178,258	\$ 1,233,499	\$ 205,556	\$ 14,980,756

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis**  
**Proprietary Funds**  
**December 31, 2016**

	Electric Fund	Water Fund	Garbage Fund	Sewer Fund	Other Funds	Total Enterprise Funds
<b>Operating Receipts</b>						
Charges for Services	\$2,173,139	\$ 822,053	\$ 214,655	\$ 134,526	\$ -	\$ 3,344,372
Other Operating Revenue	1,529	76	20,000	-	19,371	40,976
<b>Total Operating Receipts</b>	<b>2,174,668</b>	<b>822,129</b>	<b>234,655</b>	<b>134,526</b>	<b>19,371</b>	<b>3,385,348</b>
<b>Operating Disbursements</b>						
Salaries & Benefits	173,079	203,825	22,441	53,226	2,918	455,489
Purchased Power/Contract Services	1,645,326	-	205,224	-	-	1,850,549
Depreciation	39,836	313,840	-	9,608	-	363,284
Miscellaneous	60,103	288,668	1,583	27,972	18,556	396,882
<b>Total Operating Disbursements</b>	<b>1,918,343</b>	<b>806,333</b>	<b>229,248</b>	<b>90,805</b>	<b>21,474</b>	<b>3,066,204</b>
<b>Operating Income</b>	<b>256,325</b>	<b>15,795</b>	<b>5,407</b>	<b>43,720</b>	<b>(2,104)</b>	<b>319,144</b>
<b>Nonoperating Receipts (Disbursements)</b>						
Interest on Investments	244	6,379	189	1,706	379	8,897
Grants	-	3,804	-	-	-	3,804
Rental Income	-	-	-	3,145	-	3,145
Bond Premium (Discount)	-	(15,450)	-	(4,635)	-	(20,085)
Interest Expense	-	(112,142)	-	(2,636)	-	(114,778)
Bond Issuance Costs	-	(17,802)	-	(5,341)	-	(23,142)
<b>Total Nonoperating Receipts (Disbursements)</b>	<b>244</b>	<b>(135,211)</b>	<b>189</b>	<b>(7,760)</b>	<b>379</b>	<b>(142,159)</b>
<b>Income (Loss) Before Transfers</b>	<b>256,569</b>	<b>(119,415)</b>	<b>5,596</b>	<b>35,960</b>	<b>(1,725)</b>	<b>176,984</b>
Interfund Transfers In	212,129	12,610	-	14,681	45,000	284,420
Interfund Transfers (Out)	(374,237)	(27,291)	-	(5,000)	(8,608)	(415,136)
<b>Change in Net Position</b>	<b>\$ 94,460</b>	<b>\$ (134,097)</b>	<b>\$ 5,596</b>	<b>\$ 45,641</b>	<b>\$ 34,668</b>	<b>\$ 46,268</b>
<b>Net Position - January 1</b>	<b>651,637</b>	<b>7,861,692</b>	<b>172,662</b>	<b>527,373</b>	<b>130,888</b>	<b>9,344,252</b>
<b>Net Position - December 31</b>	<b>\$ 746,098</b>	<b>\$ 7,727,595</b>	<b>\$ 178,258</b>	<b>\$ 573,014</b>	<b>\$ 165,556</b>	<b>\$ 9,390,521</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Cash Flows – Modified Cash Basis - Proprietary Funds**  
**December 31, 2016**

	Electric Fund	Water Fund	Garbage Fund	Sewer Fund	Other Funds	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>						
Receipts from Customers	\$ 2,176,153	\$ 822,129	\$ 234,655	\$ 134,526	\$ 19,371	\$ 3,386,833
Payments to Suppliers	(1,705,428)	(296,132)	(206,807)	(27,972)	(18,556)	(2,254,895)
Payments to Employees	(173,079)	(203,825)	(22,441)	(53,226)	(2,918)	(455,489)
Total Cash Flows from Operating Act.	297,646	322,172	5,407	53,328	(2,104)	676,449
<b>Cash Flows from Noncapital Financing Activities</b>						
Transfers In	212,129	12,610	-	14,681	45,000	284,420
Other Sources/(Uses)	-	3,804	-	-	-	3,804
(Inc.)/Decrease in Interfund Balances	(40,000)	76,630	-	(3,340)	40,000	73,290
(Inc.)/Decrease in Due from Other Governments	531	-	-	-	-	531
Transfers (Out)	(374,237)	(27,291)	-	(5,000)	(8,608)	(415,136)
Total Cash Flows from Noncapital Financial Activities	(201,578)	65,753	-	6,341	76,392	(53,091)
<b>Cash Flows from Capital and Related Financing Activities</b>						
Interest Expense	-	(112,142)	-	(2,636)	-	(114,778)
Bond Issuance Costs	-	(33,252)	-	(9,976)	-	(43,227)
Inc./(Decrease) in Bonds Payable	600,000	1,131,189	-	603,296	-	2,334,485
Total Cash Flows from Capital, Related Financing Activities, and Equity Changes	600,000	985,795	-	590,684	-	2,176,479
<b>Cash Flows From Investing Activities</b>						
Earnings on Investments	244	6,379	189	4,851	379	12,042
Purchases of Capital Assets	(526,520)	(1,256,171)	-	(614,876)	-	(2,397,567)
Total Cash Flows From Investing Act.	(526,276)	(1,249,792)	189	(610,024)	379	(2,385,524)
Net Increase (Decrease) in Cash & Cash Equivalents	169,793	123,928	5,596	40,329	74,668	414,313
Cash and Cash Equivalents - January 1	\$ 101,956	\$ 1,527,315	\$ 172,662	\$ 439,390	\$ 130,888	\$ 2,372,210
Cash and Cash Equivalents - Dec. 31	\$ 271,748	\$ 1,651,243	\$ 178,258	\$ 479,719	\$ 205,556	\$ 2,786,524
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>						
Operating Income	256,325	15,795	5,407	43,720	(2,104)	319,144
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities						
Depreciation Expense	39,836	313,840	-	9,608	-	363,284
Inc./(Decrease) in Deposits Payable	1,485	1,271	-	-	-	2,755
Total Adjustments	\$ 41,321	\$ 306,376	\$ 0	\$ 9,608	\$ 0	\$ 357,306
<b>Net Cash Provided/(Used) by Operating Activities</b>	\$ 297,646	\$ 322,172	\$ 5,407	\$ 53,328	\$ (2,104)	\$ 676,449

The notes to the financial statements are an integral part of this statement.



**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Statement of Assets and Liabilities – Fiduciary Fund - Joint Powers Reserve Fund**  
**December 31, 2016**

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Assets:	
Cash and Investments	<u>\$ 86,514</u>
Liabilities	
Due to Joint Powers Reserve	<u>\$ 86,514</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2016**

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**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

Financial accountability is defined in GASB Statement No. 14 "The Financial Reporting Entity". The criteria includes appointing a voting majority of an organization's governing board and (1) the ability of the city to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the city.

Based upon the application of these criteria, the component units discussed below are included within the City's reporting entity because of the significance of the operational or financial relationships with the City.

BLENDDED COMPONENT UNITS – None

DISCRETELY PRESENTED COMPONENT UNITS – The component unit columns in the basic financial statements include the financial data of the City's two component units. These units are reported in separate columns to emphasize that they are legally separate from the City.

Park River Housing Authority – The Park River Housing Authority provides affordable housing for City residents. The authority's board is appointed the City Council and the City holds title to the Authority's real estate.

Park River Airport Authority – The Park River Airport Authority manages the local airport facility. The authority's board is appointed by the City Council. The authority is fiscally dependent upon the city because the City Council levies taxes.

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

Park River Public School District #78 - With different boundaries than the City, the school district does not entirely or exclusively benefit City residents. The City has no authority to appoint board members and has no fiscal responsibilities. The school district can levy taxes and issue debt in its own name.

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

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

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

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

The government-wide and proprietary financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures when they result from cash transactions with a provision for depreciation in the government-wide statements, and proprietary financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Governmental funds are reported using the current financial resources measurement focus, within the limitations of the modified cash basis of accounting. Only cash and cash equivalents, long term notes receivable and inter-fund balances are generally included on their balance sheets; however, the governmental funds do recognize liabilities for payroll withholding. 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.

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

The City reports the following major governmental funds:

***Governmental Funds:***

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

1% Sales Tax Fund – This fund accounts for sales tax money for the City that is used for various economic development and city improvement projects.

Hospital Sales Tax Fund – This fund is a debt service funds used to account for the collection of sales tax revenues designated to service the Sales Tax Hospital Bonds of 2005. Sales tax revenue received in this fund is restricted for payment of principal and interest payments.

***Proprietary Funds:***

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing or delivering goods in connection with the proprietary fund’s principal ongoing operations. The principal operating receipts of the City’s proprietary funds are charges to customers for goods and services. Operating disbursements for proprietary funds include the cost of sales and services, salaries, administrative expenses and depreciation on capital assets. All other receipts or disbursements not meeting this definition are reported as non-operating.

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

**D. Cash and Equivalents**

Cash and cash equivalents include amounts in demand deposits, money market accounts and certificates of deposit with maturity of three months or less.

**E. Capital Assets**

Capital assets include land, buildings and improvements, furniture and equipment. Capital assets are reported in the government-wide financial statements and in the proprietary funds. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings & improvements, furniture & equipment, distribution systems and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

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

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

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

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

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

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

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

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

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

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

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

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

*Restricted fund balance* – This category includes net fund resources that are subject to external constraints that have been placed on the use of resources either (a) imposed by creditors, grantors, contributors, or

laws regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

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

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

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

## **H. Interfund Transactions**

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

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

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

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

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

#### **Budget Amendments**

The City’s governing board approved the following amendments to the city budget:

<b>Budget Amendments:</b>	<b>Original Budget</b>	<b>Amendment</b>	<b>Amended Budget</b>
	<b>Expenditures</b>		
<b>Major Funds:</b>			
General Fund	\$ 414,915	\$ 42,879	\$ 457,794
Hospital Sales Tax	100,000	4,000	104,000
<b>Non-Major Funds:</b>			
Band Fund	-	5,000	5,000
Economic Development	-	500	500
Library Fund	11,000	2,000	13,000
Street Improv Dist #2013-1	-	35,000	35,000
Southview TIF	-	20,000	20,000
Northstar Addition TIF	-	29,000	29,000
Street Improv Dist 2012-2	-	20,000	20,000

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

#### ***A. Deposits***

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

State statutes authorize the City to invest in:

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

The City's deposits at balance sheet date were entirely covered by federal depository insurance or by collateral held by the pledging financial institutions' trust department or agent in the City's name. For the purpose of credit-risking, all cash deposits and certificates are considered to be deposits.

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. State law requires local governments to deposit funds in financial institutions carrying federal deposit insurance and a pledge of governmental securities for deposits in excess of deposit insurance coverage.

#### ***B. Investments***

*Credit Risk* - Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investment is to only invest in certificates of deposit fully insured or collateralized by pledge of governmental securities.

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investing only in certificates of deposit that are quite stable in rate of return and relatively short term.

At year ended December 31, 2016, the City's carrying amount of cash & equivalents totaled \$4,570,922 and the bank balances totaled \$4,613,576. Of the bank balances, \$2,008,532 was covered by Federal Depository Insurance. The remaining bank balances totaling \$2,605,044 were collateralized with securities held by the pledging financial institution's agent in the government's name.

**NOTE 4 INTERFUND RECEIVABLES/PAYABLES**

The City has the following interfund balances:

Fund	Jan 1, 2016 Receivable (Payable)	Change	Dec 31, 2016 Receivable (Payable)
Street Improv Dist 2017-1	\$ -	\$ (12,215)	\$ (12,215)
Sales Tax Fund	39,894	106,605	146,499
Southview TIF	(32,975)	18,100	(14,875)
North Star TIF	(6,919)	(39,200)	(46,119)
Water Fund	-	105,076	105,076
Sewer Fund	-	56,014	56,014
Depreciation Fund	-	(40,000)	(40,000)
Water & Sewer Improv Dist 2015-1	-	(2,500)	(2,500)
Water & Sewer Improv Dist 2016-1	-	(231,880)	(231,880)
Electric Revenue Bonds 2016	-	40,000	40,000
	\$ 0	\$ -	\$ -

The Southview TIF and North Star Addition TIF funds owe \$60,944 to the 1% Sales Tax fund for debt service requirements. The amount is expected to be repaid upon final payment of debt service.

The Water & Sewer Improvement District 2016-1 fund owe \$231,880 to the 1% Sales Tax, Water, and Sewer funds for capital improvement expenditures. The amount is expected to be repaid when financing for the project is complete.

The Street Improvement District 2017-1 owes \$12,215 to the 1% Sales Tax fund for capital improvement expenditures. The amount is expected to be repaid when funding for the project is received.

The Depreciation fund owes \$40,000 to the Electric Revenue Bonds 2016 fund for debt service requirements. The amount is expected to be repaid during 2017.

Other interfund balances are allocations of utility revenue to the debt service funds and are expected to be repaid during 2017.



**NOTE 5 INTERFUND TRANSFERS*****Inter-fund Transfers:***

The inter-fund transfers for the year ended December 31, 2016 were as follows:

<b>Fund Name</b>	<b>IN</b>	<b>OUT</b>
General Fund	\$ (162,986)	\$ 20,000
Band Fund	-	3,506
1% Sales Tax	-	17,000
Funded Depreciation	(20,000)	28,764
Street Improv Dist #7	(17,000)	-
Water Fund	(2,690)	-
Electrical Fund	(127,397)	255,448
Sewer Fund	-	5,000
Depreciation Fund	(45,000)	8,608
Water Repair and Replacement	-	27,291
Water and Sewer Improv Dist 2015-1	(24,601)	-
Electric Revenue Bonds 2016	(84,732)	118,789
	<u>\$ (484,406)</u>	<u>\$ 484,406</u>

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

**NOTE 6 LOANS RECEIVABLE**

The city offers loans and grants to businesses for either startup costs or expansion costs. Many of these loans are interest buy downs on Bank of North Dakota FlexPACE loans and payments begin after the Bank of North Dakota PACE loan is paid in full. No allowance has been established for estimated uncollectible loans.

The following summaries loan receivable activity for the year ended December 31, 2016:

	Balance 1/1/2016	Loans Issued	Payments Received	Balance 12/31/2016
Walsh Grain, LLC	\$ 154,736	\$ -	\$ (22,105)	\$ 132,631
Economic Development Loans	43,608	5,000	(1,100)	47,508
Total Loans Receivable	<u>\$ 198,344</u>	<u>\$ 5,000</u>	<u>\$ (23,205)</u>	<u>\$ 180,139</u>

During 2013, the City of Park River, along with the Red River Regional Council, Walsh County JDA, The City of Grafton, and Polar Communication granted a loan to Walsh Grain, LLC. The total loan amount is \$760,000 of which \$200,000 was the City of Park River's participation. The loan will be repaid over 10 years in annual installments. The City will receive future principal & interest payments as follows:

Year	Principal	Interest
2017	22,105	3,979
2018	22,105	3,316
2019	22,105	2,653
2020	22,105	1,989
2021	22,105	1,326
Thereafter	22,104	663
<b>Total</b>	<b>\$ 132,631</b>	<b>\$ 13,926</b>

### **NOTE 7 CAPITAL ASSETS**

The following schedule shows capital asset activity of governmental funds during 2016:

	<b>Balance 1/1/2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/2016</b>
<b>Governmental Type Assets:</b>				
<b>Non-depreciated assets</b>				
Land	\$ 160,250	\$ -	\$ -	\$ 160,250
Total non-depreciated assets	160,250	-	-	160,250
<b>Depreciable assets</b>				
Equipment	464,326	28,764	(24,234)	468,855
Buildings	376,960	-	-	376,960
Infrastructure	2,891,766	9,381	-	2,901,147
Total depreciable assets	3,733,052	38,145	(24,234)	3,746,962
<b>Less: accumulated depreciation for:</b>				
Equipment	(368,606)	(22,519)	24,234	(366,891)
Buildings	(231,426)	(14,218)	-	(245,644)
Infrastructure	(119,683)	(73,924)	-	(193,607)
Total accumulated depreciation	(719,715)	(110,661)	24,234	(806,142)
<b>Net depreciable assets</b>	<b>3,013,337</b>	<b>(72,517)</b>	<b>-</b>	<b>2,940,820</b>
<b>Net Governmental-Type assets</b>	<b>\$ 3,173,587</b>	<b>\$ (72,517)</b>	<b>\$ -</b>	<b>\$ 3,101,070</b>

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

General Government	\$ 24,730
Public Works	74,268
Public Safety	<u>11,663</u>
Total Depreciation Expense	<u>\$ 110,661</u>

The following schedule shows capital asset activity of business type funds during 2016:

	<b>Balance 1/1/2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12/31/2016</b>
<b>Business Type Assets:</b>				
<b>Non-depreciated assets</b>				
Land	\$ 17,400	\$ -	\$ -	\$ 17,400
Construction in process	-	2,358,717	-	2,358,717
Total non-depreciated assets	17,400	2,358,717	-	2,376,117
<b>Depreciable assets</b>				
Equipment	932,649	38,850	-	971,499
Buildings & Distribution Systems	12,368,060	-	-	12,368,060
Total depreciable assets	13,300,710	38,850	-	13,339,560
<b>Less: accumulated depreciation for:</b>				
Equipment	(278,612)	(50,589)	-	(329,201)
Buildings & Distribution Systems	(3,100,203)	(312,695)	-	(3,412,898)
Total accumulated depreciation	(3,378,815)	(363,284)	-	(3,742,099)
<b>Net depreciable assets</b>	<u>9,921,894</u>	<u>(324,434)</u>	<u>-</u>	<u>9,597,460</u>
<b>Net Business-Type asset</b>	<u>\$ 9,939,294</u>	<u>\$ 2,034,282</u>	<u>\$ -</u>	<u>\$ 11,973,577</u>

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

Water	\$ 313,840
Electric	39,836
Sewer	9,608
Mosquito Control	<u>-</u>
Total Depreciation Expense	<u>\$ 363,284</u>

The following schedule shows capital asset activity of the City's component units during 2016:

	<b>Balance</b>			<b>Balance</b>
	<b>1/1/2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>12/31/2016</b>
<b>Component Units</b>				
<b>Airport Fixed Assets</b>				
Construction in Progress	\$ -	\$ 25,597	\$ -	\$ 25,597
Equipment	114,530	-	-	114,530
Buildings & Infrastructure	1,329,874	-	-	1,329,874
Total Assets	1,444,404	25,597	-	1,470,002
<b>Airport Accumulated Depreciation</b>				
Equipment	(90,669)	(9,544)	-	(100,213)
Buildings & Infrastructure	(270,035)	(49,019)	-	(319,054)
Total accumulated depreciation	(360,704)	(58,563)	-	(419,267)
<b>Net Airport Assets</b>	1,083,700	(32,966)	-	1,050,735
<b>Housing Authority Fixed Assets</b>				
Furniture & Fixtures	\$ 40,610	\$ -	\$ -	\$ 40,610
Buildings & Infrastructure	1,100,000	-	-	1,100,000
Total Assets	1,140,610	-	-	1,140,610
<b>Housing Authority Accumulated Depreciation</b>				
Furniture & Fixtures	(40,610)	-	-	(40,610)
Buildings & Infrastructure	(179,722)	(27,471)	-	(207,193)
Total accumulated depreciation	(220,332)	(27,471)	-	(247,803)
<b>Net Housing Authority Assets</b>	920,278	(27,471)	-	892,807
<b>Net Component Unit Assets</b>	\$ 2,003,978	\$ (60,437)	\$ -	\$ 1,943,542

**NOTE 8 LONG TERM LIABILITIES**

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

<b>Governmental Activities:</b>	1/1/2016	Issued	Paid	12/31/2016	Due Within One Year
Sales Tax Revenue Bonds	\$ 346,123	\$ -	\$ (86,471)	\$ 259,652	\$ 89,644
Special Assessment Bonds	1,942,500	-	(210,000)	1,732,500	210,000
Tax Increment Revenue Bonds	760,000	-	(27,000)	733,000	28,000
Capital Lease	30,304	-	(14,725)	15,579	15,579
<b>Total Governmental Activities</b>	<b>\$ 3,078,927</b>	<b>\$ -</b>	<b>\$ (338,196)</b>	<b>\$ 2,740,731</b>	<b>\$ 343,223</b>

<b>Business-Type Activities:</b>	1/1/2016	Issued	Paid	12/31/2016	Due Within One Year
Revenue Bonds	\$ 2,874,000	\$ 2,558,485	\$ (224,000)	\$ 5,208,485	\$ 300,222
<b>Total Business-Type Activities</b>	<b>\$ 2,874,000</b>	<b>\$ 2,558,485</b>	<b>\$ (224,000)</b>	<b>\$ 5,208,485</b>	<b>\$ 300,222</b>

<b>Component Unit</b>	1/1/2016	Issued	Paid	12/31/2016	Due Within One Year
Revenue Bonds	\$ 1,000,302	\$ -	\$ (16,850)	\$ 983,452	\$ 17,867

The City of Park River is obligated to the following bond issues:

**GOVERNMENTAL ACTIVITIES:****Sales Tax Revenue Bonds****Sales Tax Hospital Bonds of 2005**

The city issued revenue bonds in the amount of \$1,215,000 to help finance construction of a new clinic and remodel the existing hospital, both owned by the First Care Health System, a local non-profit corporation. Bond proceeds were advanced to First Care Health System for construction costs. The bond issue is to be paid with the pledge of a 1% sales tax on all taxable sales in the city.

On May 15, 2015 the City refunded these bonds by issuing Sales Tax Revenue Refunding Bonds Series 2015. The City anticipates net present value savings of \$192,109. The interest rate of the refunding bonds ranges from 1.00% to 1.55%. Annual principal payments starting in 2016 at \$86,471 until final maturity in 2019 of \$82,218. As of December 31, 2016 the City holds \$150,111 in a debt payment reserve for this issue.

Outstanding December 31, 2016

\$259,652

## **Special Assessment Bonds**

### **Street Improvement District #7**

The city issued special assessment bonds in the amount of \$450,000 to finance the Kensington street project. The bonds are due in annual installments of \$15,000 to \$35,000 through 2019. The interest rate ranges from 4.0% to 5.0%.

Outstanding December 31, 2016 \$100,000

### **Water & Sewer Improvement District 2012-1**

\$275,000 Refunding Improvement Bonds, Series 2013 were issued to finance water & sewer improvements to the North Star Addition. The bonds are due in annual installments of \$13,750 through 2033. Interest rates range from 2.0% to 4.65%.

Outstanding December 31, 2015 \$233,750

### **Street Improvement District #2013-1**

\$1,600,000 Refunding Improvement Bonds, Series 2014B were issued to finance street improvements made to 135<sup>th</sup> Ave NE. The City received bond proceeds of \$1,355,000 during 2013 and \$245,000 during 2014. The bonds are due in annual installments of \$160,000 through 2024. Interest rates range from 1.25% to 3.0%.

Outstanding December 31, 2016 \$1,280,000

### **Refunding Improvement Bonds Series 2015**

\$125,000 Refunding Improvement Bonds, Series 2015 were issued to finance street improvements made to the North Star Addition. The bonds are due in annual installments of \$6,250 through 2035. Interest rates range from 2.00% to 4.65%.

Outstanding December 31, 2016 \$118,750

Total Special Assessment Bonds \$1,732,500

## **Tax Increment Revenue Bonds**

### **Street Improvement District 2012-2**

\$760,000 Tax Increment Revenue Bonds were issues to finance street improvements to the North Star Addition. During 2014 the City drew \$420,306 of temporary warrants and the remaining \$339,691 was drawn in 2015. Principal payments started in 2016 at \$27,000 and increase annually until final maturity with a principal payment of \$52,000 in 2035. Interest rates range from 2.0% to 4.65%.

Total Tax Increment Bonds Outstanding December 31, 2016 \$733,000

## **Capital Leases**

The City entered into a capital lease to finance the purchase of a John Deere Motor Grader. The lease is for 5 years at a 2.75% interest rate. The last payment is due in 2017.

Outstanding December 31, 2016 \$15,579

## **BUSINESS-TYPE ACTIVITIES:**

### **Revenue Bonds**

#### Water Revenue Refunding Bonds of 2003

Original issue amount was \$660,000 at an interest rate of 1.6% to 4.35% amortized over 14 years. The city paid off the loan early, in 2016.

Outstanding December 31, 2016 \$0

#### Water Revenue Bonds of 2005

The City issued bonds to finance a water pipeline and well system. The bond issue was for \$746,100 and bears interest at 2.5%. Principal payments started in 2006 at \$5,000 and increase throughout the issue to a final payment of \$47,000 in 2025. As of December 31, 2016 the City has \$96,245 in restricted funds set aside for payment of this issue.

Outstanding December 31, 2016 \$395,000

#### Water Revenue Bonds Series 2006

The City authorized a bond issue to finance Phase II of the water pipeline and well system described above. Phase II consists primarily of improvements to the existing water plant. The bond issue was for \$517,600 and bears interest at 2.5%. Maturity of the issue is September 1, 2026. As of December 31, 2016 the City has \$70,614 in restricted funds set aside for payment of this issue holds:

Outstanding December 31, 2016 \$310,000

#### Water Revenue Bonds Series 2014

The City authorized a bond issue to finance the construction of a water tower. The bond issue was for \$2,045,000 and bears interest at .75% to 4.25%. Principal payments started in 2015 at \$55,000 and increase throughout the issue to a final payment of \$80,000 in 2036. As of December 31, 2016 the City has \$769,058 in restricted funds set aside for payment of this issue.

Outstanding December 31, 2016 \$1,945,000

#### Sewer Revenue Bonds Series 2016

The City authorized a bond issue to finance sewer improvements in Green Acres. The bond issue was for \$413,485 and bears interest at 2.00%. Principal and interest payments of \$31,860 start in 2017. Maturity of the issue is December 2023.

Outstanding December 31, 2016 \$413,485

#### Electric Revenue Bonds Series 2016

The City authorized a bond issue to finance the remodel of the substation circuit exit. The bond issue was for \$600,000 and bears interest at 1.50% to 3.00%. Principal payments of \$75,000 start in 2017. Maturity of the issue is September 2024.

Outstanding December 31, 2016 \$600,000

Refunding Improvement Bonds Series 2016

\$1,545,000 Refunding Improvement Bonds, Series 2016 were issued to finance utility improvements made to multiple neighborhoods in the City. The bonds are due in annual installments of \$60,000 to \$100,000 through 2036. Interest rates range from 1.00% to 3.00%.

Outstanding December 31, 2016 \$1,545,000

Total Revenue Bonds – Business-Type Activities \$5,208,485

**Component Unit – Park River Housing Authority**

The City’s component unit, The Park River Housing Authority, issued housing revenue bonds to finance construction of city-owned condominiums through the creation of the Park River Housing Authority. The units will be rented primarily to retired city residents. The rents collected are expected to cover operating expenses and debt service on the revenue bonds. The bonds were issued in the amount of \$1,100,000 payable at an initial interest rate of 5% payable over 35 years. The rate is reset every five years.

Outstanding December 31, 2016 \$983,452

The annual requirement to amortize all bonds outstanding as of December 31, 2016, including interest payments are as follows:

**Governmental Activities**

Year Ending December 31	Sales Tax Revenue Bonds		Special Assessment Bonds		Tax Increment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	89,644	2,908	210,000	46,420	28,000	26,551
2018	87,790	1,867	215,000	41,531	29,000	25,981
2019	82,218	637	215,000	36,078	30,000	25,391
2020	-	-	180,000	31,089	31,000	24,664
2021	-	-	180,000	26,579	32,000	23,798
2022-2026	-	-	580,000	63,999	177,000	103,764
2027-2031	-	-	93,750	23,105	209,000	68,241
2032-2036	-	-	58,750	3,546	197,000	18,716
2037-2041	-	-	-	-	-	-
<b>Total</b>	<b>\$ 259,652</b>	<b>\$ 5,412</b>	<b>\$ 1,732,500</b>	<b>\$ 272,346</b>	<b>\$ 733,000</b>	<b>\$ 317,105</b>

**Governmental Activities**

Year Ending December 31	Capital Lease	
	Principal	Interest
2017	15,579	406
2018	-	-
<b>Total</b>	<b>\$ 15,579</b>	<b>\$ 406</b>



**Business-Type Activities**

Year Ending December 31	Revenue Bonds	
	Principal	Interest
2017	300,222	148,580
2018	312,742	142,973
2019	314,898	137,494
2020	317,065	131,057
2021	324,282	124,425
2022-2026	1,309,275	512,247
2027-2031	705,000	379,288
2032-2036	835,000	255,869
2037-2041	460,000	136,588
2042-2046	330,000	30,150
2047-2051	-	-
<b>Total</b>	<b>\$ 5,208,485</b>	<b>\$ 1,998,669</b>

**NOTE 9 OPERATING LEASE**

The City entered into a five year lease agreement to lease a New Holland tractor with a purchase option of \$78,594 in December of 2020. Operating lease payments totaled \$12,062 during 2016. The future lease payments are as follows:

Year Ending December 31	Total Payments
2017	12,062
2018	12,062
2019	12,062
<b>Total</b>	<b>\$ 36,185</b>

**NOTE 10 CONTINGENT LIABILITIES**

The City has sponsored municipal leases on behalf of local non-profits because the non-profits are unable to enter into leases on their own. The City is contingently liable for the lease should the non-profit default on payment. The leases are as follows:

	Outstanding <u>December 31, 2016</u>
Hillcrest Golf Course to finance the purchase a John Deere Mower	8,089
Park River Fire Department to finance purchase of International truck	<u>50,019</u>
<b>Total Contingent Liabilities</b>	<b><u>\$58,108</u></b>

**NOTE 11 COMPENSATED ABSENCES**

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

**NOTE 12 PENSION PLAN**

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

## **Summary of Significant Accounting Policies**

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

### **General Information about the Pension Plan**

#### ***North Dakota Public Employees Retirement System (Main System)***

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

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

#### ***Pension Benefits***

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

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

#### ***Death and Disability Benefits***

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

surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

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

### ***Refunds of Member Account Balance***

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

### ***Member and Employer Contributions***

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

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

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

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

At December 31, 2016, the City reported a liability of \$417,566 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Employer's proportion was 0.042845 percent, which was a decrease of 0.002306 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of 49,220. At December 31, 2016, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 6,273	\$ 3,866
Changes of assumptions	38,494	20,745
Net difference between projected and actual earnings on pension plan investments	58,256	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	27,185
*Employer contributions subsequent to the measurement date of June 30, 2016	15,611	-
<b>Total</b>	<b>\$ 118,634</b>	<b>\$ 51,796</b>

\*\$15,611 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

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

**Year ended December 31**

2017	\$ 7,929
2018	7,929
2019	20,638
2020	11,075
2021	3,656
Thereafter	-
<b>Total</b>	<b>\$ 51,227</b>

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

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

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

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

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability

incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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

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

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

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

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
Employer's proportionate share of the net pension liability	592,310	417,566	270,336

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

### **NOTE 13 PROPERTY TAXES**

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

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

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

**NOTE 14 RISK MANAGEMENT**

The City of Park River is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance

Reserve Fund (NDRIF), 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 NDRIF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRIF is limited to losses of one million dollars per occurrence. The City of Park River also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Park River pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period.

The State Bonding fund currently provides the City of Park River with blanket fidelity bond coverage in the amount of \$1,500,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. The City of Park River also participates in the North Dakota Worker's Compensation Bureau. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 15 RELATED PARTY TRANSACTIONS**

During 2015, the City granted an interest buy down loan of \$4,934 to Lundquist Enterprises, LLP, which is owned and operated by council member Robert Lundquist III. The amount owed by Lundquist Enterprises, LLP on December 31, 2016 was \$4,934.

**NOTE 16 PRIOR PERIOD ADJUSTMENTS**

Fund balance and/or net position as of December 31, 2016 has been restated as noted below:

<b>Governmental Funds</b>	
Sales Tax Fund	\$ 32,975 *
Southview TIF	<u>(32,975) *</u>
<b>Total</b>	<u><u>\$ -</u></u>

\* - This increase(decrease) is to record an interfund balance from a prior year.

**NOTE 17 DEFICIT FUND BALANCE**

The fund balance in the Southview TIF was (\$14,010) and (\$32,081) at December 31, 2016 and 2015 respectively. The fund balance in the North Star TIF was (\$45,576) and (\$6,919) at December 31, 2016 and 2015 respectively. The cause of both deficits is a timing difference between debt service obligations and tax receipts. The deficit fund balance is expected to be relieved from future tax revenues.

The fund balance in Street Improvement District 2017-1 was \$(12,215) at December 31, 2016. The cause of this deficit is a timing difference between project expenditures and the receipt of project funding. The deficit fund balance is expected to be relieved when financing for the project is completed.

**NOTE 18 SUBSEQUENT EVENT**

On May 8, 2017 the City received notice from the North Dakota Office of State Tax Commissioner that refunds and adjustments made to sales tax during the month of April 2017 will need to be repaid to the state. Refunds and adjustments to city sales tax revenue can be caused by: 1) amended returns due to an overpayment of tax, 2) refund of tax previously paid because the purchase was eligible for one of several business tax incentive exemptions, or 3) audits resulting in any of the above refunds or adjustments.

The City must repay sales tax refunds and adjustments of \$90,246.60. It is the City's intent to withhold 100% of future sales tax allocations until the deficiency is paid in full.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Budget Comparison Schedule - Modified Cash Basis**  
**General Fund**  
**December 31, 2016**

	<u>General Fund</u>			
	Original Budget	Final Budget	Actual	Variance
<b>Receipts:</b>				
Taxes	\$ 144,303	\$ 144,303	\$ 143,902	\$ (401)
Licenses & Permits	9,882	9,882	10,424	542
Intergovernmental Sources	156,000	156,000	99,596	(56,404)
Earnings on Investments	100	100	2,738	2,638
Other Sources	14,000	14,000	12,134	(1,866)
<b>Total Receipts</b>	<b>324,285</b>	<b>324,285</b>	<b>268,794</b>	<b>(55,491)</b>
<b>Disbursements:</b>				
General Government	78,915	100,963	99,538	1,425
Public Safety	176,000	196,831	168,277	28,554
Public Service	160,000	160,000	127,017	32,983
<b>Total Disbursements</b>	<b>414,915</b>	<b>457,794</b>	<b>432,976</b>	<b>24,818</b>
Excess Receipts over (under) Disbursements	(90,630)	(133,509)	(164,182)	(80,308)
Interfund Transfers In (Out)	80,000	80,000	142,986	62,986
Excess Receipts over (under) Expenditures after Interfund Transfers	\$ (10,630)	\$ (53,509)	\$ (21,196)	\$ 32,313
<b>Fund Balance - January 1</b>	<b>35,583</b>	<b>35,583</b>	<b>35,583</b>	
<b>Fund Balance - December 31</b>	<b>\$ 24,953</b>	<b>\$ (17,926)</b>	<b>\$ 14,387</b>	

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Budget Comparison Schedule - Modified Cash Basis**  
**1% Sales Tax Fund**  
**December 31, 2016**

	<u>1% Sales Tax Fund</u>			
	Original Budget	Final Budget	Actual	Variance
<b>Receipts:</b>				
Taxes	\$ 100,000	\$ 100,000	\$ 185,297	\$ 85,297
Earnings on Investments	500	500	2,737	2,237
Other Sources	5,250	5,250	7,180	1,930
<b>Total Receipts</b>	<u>105,750</u>	<u>105,750</u>	<u>195,214</u>	<u>89,464</u>
<b>Disbursements:</b>				
Economic Development	221,250	221,750	46,369	174,881
<b>Total Disbursements</b>	<u>221,250</u>	<u>221,750</u>	<u>46,369</u>	<u>174,881</u>
Excess Receipts over (under) Disbursements	<u>(115,500)</u>	<u>(116,000)</u>	<u>148,845</u>	<u>(264,345)</u>
Interfund Transfers In	-	-	-	-
Interfund Transfers (Out)	-	-	(17,000)	(17,000)
Excess Receipts over (under) Disbursements after Interfund Transfers	<u>\$ (115,500)</u>	<u>\$ (116,000)</u>	<u>\$ 131,845</u>	<u>\$ 247,345</u>
<b>Beginning Fund Balance</b>	939,634	35,583	939,634	
<b>Restatements</b>	32,975	32,975	32,975	
<b>Beginning Fund Balance as Restated</b>	972,609	68,558	972,609	
<b>Ending Fund Balance</b>	<u>\$ 857,109</u>	<u>\$ (47,442)</u>	<u>\$ 1,104,454</u>	

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Budget Comparison Schedule - Modified Cash Basis**  
**Hospital Sales Tax Fund**  
**December 31, 2016**

<u>Hospital Sales Tax Fund</u>				
	Original Budget	Final Budget	Actual	Variance
<b>Receipts:</b>				
Taxes	\$ 100,000	\$ 100,000	\$ 185,297	\$ 85,297
Earnings on Investments	500	500	417	(83)
Total Revenues	100,500	100,500	185,714	85,214
<b>Disbursements:</b>				
Debt Service	100,000	104,000	90,298	13,702
Total Disbursements	100,000	104,000	90,298	13,702
Excess Receipts over (under) Disbursements	500	(3,500)	95,416	98,916
<b>Beginning Fund Balance</b>	277,721	277,721	277,721	
<b>Ending Fund Balance</b>	<u>\$ 278,221</u>	<u>\$ 274,221</u>	<u>\$ 373,137</u>	

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Schedule of Employer's Share of Net Pension Liability**  
**North Dakota Public Employees Retirement System**  
Last 10 Fiscal Years\*

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<b>Year Ended June 30</b>	<b>Employer's Proportion Of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share Of the Net Pension Liability (Asset)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Employer's Proportionate Share Of the Net Pension Liability (Asset) as a % of its covered-employee Payroll</b>	<b>Plan Fiduciary Net Position As a % of the Total Pension Liability</b>
<b>2014</b>	0.047808%	\$303,448	\$402,720	75.3%	77.70%
<b>2015</b>	0.045151%	\$307,019	\$402,237	76.3%	77.15%
<b>2016</b>	0.042845%	\$417,566	\$431,772	96.7%	70.46%

\*Complete data for this schedule is not available prior to 2014.

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

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Schedule of Employer Contributions**  
**North Dakota Public Employees Retirement System**  
Last 10 Fiscal Years\*

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<b>Year Ended June 30</b>	<b>Statutorily Required Contribution</b>	<b>Contributions in Relation to the Statutorily Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Contributions as a % of Covered Employee Payroll</b>
<b>2014</b>	\$28,674	\$28,674	\$0	\$402,720	7.12%
<b>2015</b>	\$30,553	\$30,216	\$337	\$402,237	7.60%
<b>2016</b>	\$31,260	\$31,440	(\$180)	\$431,772	7.28%

\*Complete data for this schedule is not available prior to 2014.

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

**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION**  
**December 31, 2016**

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**NOTE 1      BUDGETS**

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

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

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

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

The governing body reviews the preliminary budget at the hearing, and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget is sent to the county auditor by October 10. No expenditure shall be made or liability incurred in excess of the appropriation, except for transfers as authorized by North Dakota Century Code Section 40-40-21. The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 7. At year-end, the balance of each appropriation becomes a part of the unappropriated fund balance, except for a special appropriation that does not lapse until the work is completed.

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

No fund's expenditures exceeded budgeted amounts.

**NOTE 2      ND PUBLIC EMPLOYEES RETIREMENT SYSTEM**

*Changes of benefit terms.*

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

***Changes of assumptions.***

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

## **SUPPLEMENTAL INFORMATION**



**CITY OF PARK RIVER**  
**Park River, North Dakota**  
**Schedule of Fund Activity**  
**For the Year Ended December 31, 2016**

<b>Governmental Funds</b>	Balance 1/1/16	Receipts	Transfers In	Other Financing Sources	Transfers Out	Disbursements	Balance 12/31/16
<b>Major Funds</b>							
General	\$ 35,583	\$ 268,794	\$ 162,986	\$ -	\$ (20,000)	\$ (432,976)	\$ 14,387
1% Sales Tax Fund	972,609	195,214	-	-	(17,000)	(46,369)	1,104,454
Hospital Sales Tax Fund	277,721	185,714	-	-	-	(90,298)	373,137
Water & Sewer Improv 2012-1	19,261	30,895	-	-	-	(22,506)	27,649
<b>Total Major Funds</b>	<b>\$ 1,305,174</b>	<b>\$ 680,617</b>	<b>\$ 162,986</b>	<b>\$ -</b>	<b>\$ (37,000)</b>	<b>\$ (592,149)</b>	<b>\$ 1,519,628</b>
<b>Non-major Funds</b>							
Band Fund	\$ 3,614	\$ 1,376	\$ -	\$ -	\$ (3,506)	\$ (1,484)	\$ -
Library Fund	25,701	12,300	-	-	-	(12,421)	25,580
Municipal Highway Fund	55,372	81,627	-	-	-	(75,574)	61,425
Social Security Fund	-	-	-	-	-	-	-
Advertising Fund	-	-	-	-	-	-	-
Forestry Fund	-	-	-	-	-	-	-
Economic Development	10,019	4,727	-	-	-	(384)	14,362
125th Fund	-	-	-	-	-	-	-
Special Assessments	2,732	570	-	-	-	(476)	2,826
Special Assessments Deficiency	6,858	-	-	-	-	-	6,858
Estate Tax Fund	-	-	-	-	-	-	-
Funded Depreciation	105,154	120	20,000	-	(28,764)	-	96,511
Street Improv Dist 7	4,430	17,849	17,000	-	-	(35,850)	3,429
135th St Improv Dist 2013-1	236,442	180,771	-	-	-	(192,040)	225,173
Southview TIF	(32,081)	18,071	-	-	-	-	(14,010)
North Star TIF	(6,919)	15,443	-	-	-	(54,101)	(45,576)
N Star Improv Dist 2012-2	24,982	6,821	-	-	-	(10,501)	21,302
Street Improv Dist 2017-1	-	-	-	-	-	(12,215)	(12,215)
<b>Total Non-major Funds</b>	<b>\$ 436,305</b>	<b>\$ 339,676</b>	<b>\$ 37,000</b>	<b>\$ -</b>	<b>\$ (32,270)</b>	<b>\$ (395,046)</b>	<b>\$ 385,665</b>
<b>Total Governmental Funds</b>	<b>\$ 1,741,479</b>	<b>\$ 1,020,293</b>	<b>\$ 199,986</b>	<b>\$ -</b>	<b>\$ (69,270)</b>	<b>\$ (987,196)</b>	<b>\$ 1,905,293</b>
<b>Enterprise Funds</b>							
<b>Major Funds</b>							
Electric Fund	\$ 651,637	\$ 2,174,668	\$ 212,129	\$ 244	\$ (374,237)	\$ (1,918,343)	\$ 746,098
Water Fund	7,861,692	822,129	12,610	(5,267)	(27,291)	(936,278)	7,727,595
Garbage Fund	172,662	234,655	-	189	-	(229,248)	178,258
Sewer Fund	527,373	134,526	14,681	216	(5,000)	(98,782)	573,014
<b>Total Major Funds</b>	<b>\$ 9,213,364</b>	<b>\$ 3,365,977</b>	<b>\$ 239,420</b>	<b>\$ (4,618)</b>	<b>\$ (406,528)</b>	<b>\$ (3,182,651)</b>	<b>\$ 9,224,964</b>
<b>Non-major Funds</b>							
Mosquito Spraying Fund	\$ 6,211	\$ 19,371	\$ -	\$ -	\$ -	\$ (21,474)	\$ 4,107
Depreciation Fund	124,678	-	45,000	379	(8,608)	-	161,449
<b>Total Non-major Funds</b>	<b>\$ 130,888</b>	<b>\$ 19,371</b>	<b>\$ 45,000</b>	<b>\$ 379</b>	<b>\$ (8,608)</b>	<b>\$ (21,474)</b>	<b>\$ 165,556</b>
<b>Total Enterprise Funds</b>	<b>\$ 9,344,252</b>	<b>\$ 3,385,348</b>	<b>\$ 284,420</b>	<b>\$ (4,238)</b>	<b>\$ (415,136)</b>	<b>\$ (3,204,125)</b>	<b>\$ 9,390,520</b>
<b>Agency Funds</b>							
Joint Powers Reserve	\$ 68,597	\$ 17,840	\$ -	\$ 77	\$ -	\$ -	\$ 86,514
<b>Total Agency Funds</b>	<b>\$ 68,597</b>	<b>\$ 17,840</b>	<b>\$ -</b>	<b>\$ 77</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 86,514</b>
<b>Component Units</b>							
Airport	\$ 1,128,480	\$ 7,148	\$ -	\$ 61,425	\$ -	\$ (79,153)	\$ 1,117,899
Housing Authority	(26,118)	71,000	-	221	-	(89,987)	(44,884)
<b>Total Component Units</b>	<b>\$ 1,102,362</b>	<b>\$ 78,148</b>	<b>\$ -</b>	<b>\$ 61,645</b>	<b>\$ -</b>	<b>\$ (169,140)</b>	<b>\$ 1,073,015</b>
<b>Total Reporting Entity</b>	<b>\$ 12,256,691</b>	<b>\$ 4,501,628</b>	<b>\$ 484,406</b>	<b>\$ 57,484</b>	<b>\$ (484,406)</b>	<b>\$ (4,360,461)</b>	<b>\$ 12,455,342</b>

**Accounting For Success**

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

Governing Board  
City of Park River  
Park River, 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, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Park River, North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Park River, North Dakota's basic financial statements and have issued our report thereon dated July 24, 2017.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies 2016-1 and 2016-2, described in the accompanying schedule of findings and responses, to be material weaknesses.

CAVALIER

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P.O. BOX 33  
Cavalier, ND 58220  
(701) 265-8644

PARK RIVER

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

LANGDON

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

STEPHEN

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Park River, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

## **Purpose of this Report**

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



Mortenson & Rygh  
Park River, North Dakota  
July 24, 2017

**CITY OF PARK RIVER**  
**Park River, North Dakota**

**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended December 31, 2016**

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

**2016-1            Segregation of Duties**

**Condition:**

The City of Park River, North Dakota has a limited number of office administrators for accounting functions and general ledger maintenance.

**Effect:**

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

**Cause:**

There is limited segregation of duties due to the small number of personnel 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. One individual is responsible for issuing utility bills, receiving payments from customers, and making the bank deposit. This increases the risk of misstatement of the City of Park River's financial condition.

**Criteria:**

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

**Recommendation:**

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

**Client Response:**

The city auditor agrees with the recommendation. The city council and mayor do approve and sign all checks from all bank accounts before release. The financial statements are also reviewed by the city council.

## 2016-2      **Out of Balance Reconciliations of Cash and Interfund Activity**

### **Condition:**

Several of the bank statement reconciliations of the City of Park River, North Dakota had significant errors, and several of the bank reconciliations did not balance with the City's balance sheet. Additionally, cash transfers and/or interfund activity received into the various funds did not match cash transfers out and/or interfund activity leaving the various funds. In several instances, activity that should have been reported as transfers or interfund loans was inaccurately coded revenues or expenditures. Management did identify and correct all material errors before the issuance of our report.

### **Effect:**

The City's ability to detect material misstatements to the financial statements in a timely manner could be adversely affected by the lack of accurate monthly or periodic bank reconciliations and interfund activity reconciliations. Prior to the correction of the bank reconciliations, cash and cash equivalents stated on the City's bookkeeping software was overstated by \$18,730, so the City Council may have relied on misstated amounts while planning or making financial decisions. Interfund receivables exceeded interfund payables by \$162,502, so interfund activity was incorrectly posted to revenues or expenditures. Transfer receipts exceeded transfer disbursements by \$230,831, so transfer activity between the funds was incorrectly posted as revenues or expenditures.

### **Criteria:**

A strong system of internal control includes timely and accurately prepared monthly or periodic financial statements. The financial statements are not accurately prepared if transfers, interfund activity, and cash reconciliations are out of balance.

### **Recommendation:**

It is already the City's policy to reconcile all cash accounts on a monthly or periodic basis. We recommend that in addition to cash reconciliations, the City also implement a policy to reconcile all CD balances, transfers, and all interfund receivables and payables.

### **Client Response:**

Management has since reviewed and corrected the cash reconciliations and interfund activity for the audit year. A policy has been implemented to reconcile interfund activity on a monthly basis.