

**CITY OF RICHARDTON
RICHARDTON, NORTH DAKOTA**

Audited Financial Statements

For the Year Ended December 31, 2014

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**CITY OF RICHARDTON
RICHARDTON, NORTH DAKOTA**

City Officials

December 31, 2014

Frank Kirschenheiter	Commission President
Joshua Reisenauer	Commissioner
Koleen Hoff	Commissioner
Russell Ziegler	Commissioner
Lea Floberg	Commissioner
Thea Thompson	City Auditor



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Richardton
Richardton, North Dakota

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richardton as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City of Richardton'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 cash basis of accounting as described in Note 1, this includes determining that the cash basis of accounting is an acceptable basis for presentation 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richardton, as of December 31, 2014, and the respective changes in cash basis financial position, where applicable, cash flows thereof for the years then ended in conformity with the cash basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, the City of Richardton, prepares its financial statements on the 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

Accounting principles as applied under the cash basis of accounting, require that the budgetary comparison information on pages 25 through 26 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.

Management of the City of Richardton has omitted the management's discussion and analysis that accounting principles as applied under the cash basis of accounting require to be presented to supplement the basic financial statements. Such information, although not 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.

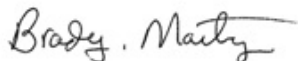
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richardton's basic financial statements. The supplementary information – combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the cash basis of accounting. In our opinion, the combining 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 September 9, 2015, on our consideration of the City of Richardton'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 Richardton's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

September 9, 2015

CITY OF RICHARDTON
STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and cash equivalents	\$ 1,674,423	\$ 122,206	\$ 1,796,629
Cash and cash equivalents - restricted	150,018	-	150,018
Total assets	1,824,441	122,206	1,946,647
Net position:			
Restricted	812,135	-	812,135
Unrestricted	1,012,306	122,206	1,134,512
Total net position	\$ 1,824,441	\$ 122,206	\$ 1,946,647

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 233,635	\$ 33,468	\$ 326,311	\$ 126,144	\$ -	\$ 126,144
Public safety	14,379	-	-	(14,379)	-	(14,379)
Public works/infrastructure	48,741	-	-	(48,741)	-	(48,741)
Health and welfare	83,769	-	-	(83,769)	-	(83,769)
Culture and recreation	18,593	-	-	(18,593)	-	(18,593)
Other	1,118,432	-	317,415	(801,017)	-	(801,017)
Principal payments on long-term debt	1,294,600	-	-	(1,294,600)	-	(1,294,600)
Interest on long-term debt	42,887	-	-	(42,887)	-	(42,887)
Total governmental activities	2,855,036	33,468	643,726	(2,177,842)	-	(2,177,842)
Business-type activities:						
Water operating fund	145,989	140,295	-	-	(5,694)	(5,694)
Sewer operating fund	54,555	56,318	-	-	1,763	1,763
Garbage operating fund	95,619	78,441	-	-	(17,178)	(17,178)
Other enterprise funds	-	7,634	-	-	7,634	7,634
Total business-type activities	296,163	282,688	-	-	(13,475)	(13,475)
Total primary government	\$ 3,151,199	\$ 316,156	\$ 643,726	(2,177,842)	(13,475)	(2,191,317)
General Revenues						
Taxes:						
Property taxes				62,139	-	62,139
Cigarette tax				1,744	-	1,744
Sales taxes				146,733	-	146,733
Highway tax				45,514	-	45,514
Oil and gas tax				511,891	-	511,903
Interest income				198	12	198
Miscellaneous				22,014	-	22,014
Issuance of long-term debt				1,350,000	-	1,350,000
Transfers				(31,523)	31,523	-
Total general revenues and transfers				2,108,710	31,535	2,140,245
Change in net position				(69,132)	18,060	(51,072)
Net position - January 1				1,893,573	104,146	1,997,719
Net position - December 31				\$ 1,824,441	\$ 122,206	\$ 1,946,647

See Notes to the Financial Statements

CITY OF RICHARDTON
BALANCE SHEET - CASH BASIS - GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General	Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
		Energy Impact Grant Fund	Rural Development	Water and Sewer District #8			
Assets							
Assets:							
Cash and cash equivalents	\$ 1,012,306	\$ -	\$ -	\$ 206,676	\$ 325,246	\$ 130,195	\$ 1,674,423
Cash and cash equivalents - restricted	150,018	-	-	-	-	-	150,018
Due from other funds	156,171	-	-	-	-	-	156,171
Total assets	\$ 1,318,495	\$ -	\$ -	\$ 206,676	\$ 325,246	\$ 130,195	\$ 1,980,612
Liabilities and Fund Balances							
Liabilities:							
Due to other funds	\$ -	\$ 126,498	\$ 26,035	\$ -	\$ -	\$ 3,638	\$ 156,171
Total liabilities	-	126,498	26,035	-	-	3,638	156,171
Fund balances:							
Restricted	150,018	-	-	206,676	325,246	130,195	812,135
Unassigned	1,168,477	(126,498)	(26,035)	-	-	(3,638)	1,012,306
Total fund balances	1,318,495	(126,498)	(26,035)	206,676	325,246	126,557	1,824,441
Total liabilities and fund balances	\$ 1,318,495	\$ -	\$ -	\$ 206,676	\$ 325,246	\$ 130,195	\$ 1,980,612

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds			Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
	General	Energy Impact Grant Fund	Rural Development	Water and Sewer District #8			
Revenues:							
Taxes	\$ 673,325	\$ -	\$ -	\$ 259,023	\$ -	\$ 104,084	\$ 1,036,432
Licenses, permits and fees	33,468	-	-	-	-	-	33,468
Intergovernmental	58,790	258,253	57,900	-	-	372	375,315
Interest income	198	-	-	-	-	-	198
Miscellaneous	2,674	-	-	-	18,645	695	22,014
Total revenues	<u>768,455</u>	<u>258,253</u>	<u>57,900</u>	<u>259,023</u>	<u>18,645</u>	<u>105,151</u>	<u>1,467,427</u>
Expenditures:							
Current:							
General government	134,017	-	83,935	-	-	15,683	233,635
Public safety	12,696	-	-	-	-	1,683	14,379
Public works	-	-	-	-	-	48,741	48,741
Health and welfare	83,769	-	-	-	-	-	83,769
Culture and recreation	15,565	-	-	-	-	3,028	18,593
Other	287,024	384,751	-	53,055	378,531	15,071	1,118,432
Debt service:							
Principal retirement	-	-	-	-	1,279,600	15,000	1,294,600
Interest and fiscal charges	-	-	-	593	36,599	5,695	42,887
Total expenditures	<u>533,071</u>	<u>384,751</u>	<u>83,935</u>	<u>53,648</u>	<u>1,694,730</u>	<u>104,901</u>	<u>2,855,036</u>
Excess of revenues over (under) expenditures	<u>235,384</u>	<u>(126,498)</u>	<u>(26,035)</u>	<u>205,375</u>	<u>(1,676,085)</u>	<u>250</u>	<u>(1,387,609)</u>
Other financing sources:							
Issuance of long-term debt	-	-	-	-	1,350,000	-	1,350,000
Transfers out	(31,523)	-	-	-	-	-	(31,523)
Total other financing sources	<u>(31,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,350,000</u>	<u>-</u>	<u>1,318,477</u>
Excess of revenues and other sources over (under) expenditures	203,861	(126,498)	(26,035)	205,375	(326,085)	250	(69,132)
Fund balance - January 1	1,114,634	-	-	1,301	651,331	126,307	1,893,573
Fund balance - December 31	<u>\$ 1,318,495</u>	<u>\$ (126,498)</u>	<u>\$ (26,035)</u>	<u>\$ 206,676</u>	<u>\$ 325,246</u>	<u>\$ 126,557</u>	<u>\$ 1,824,441</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF NET POSITION - CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2014

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<u>Assets</u>			
Assets:			
Cash and cash equivalents	\$ 51,319	\$ 70,887	\$ 122,206
Total assets	<u>51,319</u>	<u>70,887</u>	<u>122,206</u>
<u>Liabilities and Net Position</u>			
Net position:			
Unrestricted	<u>51,319</u>	<u>70,887</u>	<u>122,206</u>
Total liabilities and net position	<u>\$ 51,319</u>	<u>\$ 70,887</u>	<u>\$ 122,206</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Business-type Activities - Enterprise Funds		
	Water	Nonmajor Enterprise Funds	Total Enterprise Funds
Operating revenues:			
Charges for sales and services:			
Water operations	\$ 125,480	\$ 14,815	\$ 140,295
Sewer operations	-	56,318	56,318
Garbage operations	-	78,441	78,441
Other operating receipts	7,634	-	7,634
Total operating revenues	<u>133,114</u>	<u>149,574</u>	<u>282,688</u>
Operating expenditures:			
Water	145,989	-	145,989
Sewer	-	54,555	54,555
Garbage	-	95,619	95,619
Total operating expenses	<u>145,989</u>	<u>150,174</u>	<u>296,163</u>
Operating income	<u>(12,875)</u>	<u>(600)</u>	<u>(13,475)</u>
Non-operating income (expenses):			
Interest income	12	-	12
Total non-operating income (expenses)	<u>12</u>	<u>-</u>	<u>12</u>
Net income (loss) before transfers	<u>(12,863)</u>	<u>(600)</u>	<u>(13,463)</u>
Transfer in	31,523	-	31,523
Change in net position	18,660	(600)	18,060
Net position - January 1	<u>32,659</u>	<u>71,487</u>	<u>104,146</u>
Net position - December 31	<u>\$ 51,319</u>	<u>\$ 70,887</u>	<u>\$ 122,206</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
STATEMENT OF CASH FLOW - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Nonmajor Enterprise Fund</u>	<u>Total Enterprise Funds</u>
<u>Cash flows from operating activities:</u>			
Receipts from customers	\$ 133,114	\$ 149,574	\$ 282,688
Payments to suppliers	(117,122)	(122,728)	(239,850)
Payments to employees	(28,867)	(27,446)	(56,313)
Net cash provided (used) by operating activities	<u>(12,875)</u>	<u>(600)</u>	<u>(13,475)</u>
<u>Cash flows from noncapital financing activities:</u>			
Interest income	12	-	12
Transfers in	31,523	-	31,523
Net cash provided (used) by noncapital financing activities	<u>31,535</u>	<u>-</u>	<u>31,535</u>
Net change in cash and cash equivalents	<u>18,660</u>	<u>(600)</u>	<u>18,060</u>
Cash and cash equivalents, January 1	<u>32,659</u>	<u>71,487</u>	<u>104,146</u>
Cash and cash equivalents, December 31	<u>\$ 51,319</u>	<u>\$ 70,887</u>	<u>\$ 122,206</u>

See Notes to the Financial Statements

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Richardton, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Richardton is to maintain the accounting records on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The City does not maintain capital asset records or related debt for the governmental and business-type activities. Since capital asset records are not maintained, depreciation is not recognized and recorded as an expense. 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.

As discussed further in the "Measurement Focus" and "Basis of Accounting" sections in Note 1, these financial statements are presented on a cash basis of accounting. This basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Financial Reporting Entity

The accompanying financial statements present the activities of the City of Richardton. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity". The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. The criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Richardton to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Richardton.

Based on these criteria, City of Richardton has included one blended component unit.

Blended Component Unit

Blended component units are included in the fund types and account groups of the City because they are, in substance, part of the City's operations.

The financial statements of the City of Richardton include the Richardton Airport, a blended component unit. Richardton Airport is a legally separate entity, which provides services exclusively to the City. The City Commission acts as the governing board of the Richardton Airport. Therefore it is included in the fund types and account group of the City.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

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 primary government of the City of Richardton. 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 services.

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

Fund Financial Statements

The fund financial statements provide information about the City's funds including its blended component units. Separate statements for each fund category-governmental and proprietary-are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The city reports the following major governmental funds:

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

Energy Impact Grand Fund. This fund is used to account for money received and expenditures incurred in connection to the Energy Impact Grant.

Rural Development. This fund is used to account for money received and expenditures incurred in connection to the USDA Rural Development grant.

Water and Sewer District #8. This fund is used to account for revenues received to pay off the Refunding Improvement bonds issued.

Capital Projects Fund. This fund is used to pay expenses related to capital projects.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

The City reports the following major enterprise fund:

Water Fund. This fund is used to account for customer receipts for water fees and operating expenditures for water services.

Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The City’s financial statements are prepared under the cash basis of accounting.

In the government-wide statements of net position and statement of activities and the fund financial statements, both governmental and business-like activities are presented using the cash basis of accounting. This basis recognizes assets and net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions in the government-wide statements, and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

As a result of the use of this 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. Under the cash basis of accounting, economic development loans are recorded as expenditures when advanced and collections on the notes receivables are recorded as income when received.

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

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

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits.

Fund Balance Classifications

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

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

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

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

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

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

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

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

The City does not have a minimum fund balance policy.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

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

Use of Estimates

The preparation of financial statements in conformity with the cash basis requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 LEGAL COMPLIANCE - BUDGETS

Budget Amendments

The city's governing board did not amend the budgets during the year ended December 31, 2014.

Excess of Actual Expenditures Over Budget

Expenditures exceeded budget in the following funds:

Governmental Funds:

General	\$ 223,852
---------	------------

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

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 3 DEPOSITS

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

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

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

The City maintains cash on deposit at a financial institution. The amounts on deposit were insured by the FDIC up to \$250,000. At December 31, 2014, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. \$1,954,125 of the City's deposits are covered by pledged securities held in the City's name.

Credit Risk:

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

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

As of December 31, 2014, the City had no investments.

Concentration of Credit Risk:

The City does not have a limit on the amount the City may invest in any one issuer. The City does not have an investment policy that specifically addresses credit risk.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 4 CASH AND CASH EQUIVALENTS – RESTRICTED

The City has \$150,018 reported as cash and cash equivalents – restricted as of December 31, 2014. This cash was received from Halliburton and is restricted to use as follows: to cover expenses directly incurred by the City for legal counsel, engineering reports, and other costs associated with the zoning, annexation, roadway construction, and railway development issues.

NOTE 5 PROPERTY TAXES

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

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

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

NOTE 6 DUE TO/DUE FROM OTHER FUNDS

The due to and due from other funds as of December 31, 2014 consist of cash overdrafts. The amounts are as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
<u>Governmental Funds:</u>		
General	Energy Impact Grant Fund	\$ 126,498
General	Rural Development	26,035
General	Nonmajor governmental funds	3,638
Total Governmental Funds		<u>\$ 156,171</u>

NOTE 7 DEFICIT BALANCES

The following funds were in a deficit position at December 31, 2014:

<u>Governmental Funds:</u>	
Energy Impact Grant Fund	\$ 126,498
Rural Development	26,035
Nonmajor governmental funds	3,638
	<u>\$ 156,171</u>

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

The deficits will be alleviated by tax collections, fee collections, debt financing, grant proceeds, or transfers from the general fund.

NOTE 8 LONG-TERM DEBT

Below is a summary of long-term debt owed by the City. This information is not included in the financial statements, as the financial statements are prepared on a cash basis.

Changes in Long-Term Liabilities - During the years ended December 31, 2014, the following changes occurred in long-term liabilities:

Governmental Activities

	<u>Balance January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Sales Tax Revenue Bonds of 2013	\$ 400,000	\$ -	\$ 15,000	\$ 385,000	\$ 15,000
Temporary Improvement Warrants	1,279,600	-	1,279,600	-	-
Refunding Improvement Bonds of 2014	-	1,350,000	-	1,350,000	80,000
Total	<u>\$1,679,600</u>	<u>\$1,350,000</u>	<u>\$1,294,600</u>	<u>\$1,735,000</u>	<u>\$ 95,000</u>

Long-term debt of the governmental activities at December 31, 2014 consists of the following issues:

Sales Tax Revenue Bonds:

\$400,000 sales tax revenue bonds series 2013 due in annual payments of \$15,000 through 2017, \$20,000 through 2029, and \$25,000 annually through 2033. Interest payments are made semiannually in May and November with an annual interest rate of 2.85%.

The City is required to maintain a cash reserve in connection with the sales tax revenue bonds. The cash reserve requirement was not met as of December 31, 2014. The City was required to have an amount of at least the minimum of the following in reserve: 10% of the stated principal of the bond, the maximum annual principal and interest payment requirements of the bonds, or 125% of the average annual debt service requirements of the bond.

The City has an agreement in place with a developer who is to pay an annual \$18,644 payment, which includes interest of 4.50% to the City to help offset the costs through 2038.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

Refunding Improvement Bonds

\$1,350,000 refunding improvement bonds due in annual payments ranging from \$80,000 to \$110,000 through 2028. Interest payments are made semiannually in May and November with an annual interest rate ranging from 0.50-4.00%.

The principal maturities on debt for the years ending December 31st are as follows:

Year Ending December 31	Principal	Interest
2015	\$ 95,000	\$ 42,945
2016	125,000	39,688
2017	120,000	38,563
2018	125,000	37,475
2019	120,000	35,710
2020-2024	585,000	144,498
2025-2029	465,000	59,488
2030-2033	100,000	7,500
Total	<u>\$ 1,735,000</u>	<u>\$ 405,867</u>

NOTE 9 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Richardton pays an annual premium to NDIRF for its general liability, auto, and equipment insurance coverage. The coverage by NDIRF is limited to losses of \$1,000,000 per occurrence for general liability and automobile and \$269,118 for equipment.

The City of Richardton also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$325,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Richardton has workers compensation with the Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full time employee.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 10 FUND BALANCES

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

	General	Energy Impact Grant Fund	Rural Development	Water and Sewer District #8	Capital Projects	Non-major Governmental Funds	Total
Restricted for:							
Debt service	\$ -	\$ -	\$ -	\$ 206,676	\$ -	\$ 4,476	\$ 211,152
Street	-	-	-	-	-	24,413	24,413
Emergency	-	-	-	-	-	5,646	5,646
Social security	-	-	-	-	-	3,802	3,802
Special assessment deficiency	-	-	-	-	-	863	863
Special assessment	-	-	-	-	-	3,045	3,045
Advertising	-	-	-	-	-	2,885	2,885
Ambulance	-	-	-	-	-	189	189
Fire, building, and equipment	-	-	-	-	-	7	7
Business enhancement	-	-	-	-	-	21,632	21,632
Airport	-	-	-	-	-	4,244	4,244
Infrastructure	-	-	-	-	325,246	58,993	384,239
Haliburton related expenses*	150,018	-	-	-	-	-	150,018
Unassigned	1,168,477	(126,498)	(26,035)	-	-	(3,638)	1,012,306
	<u>\$ 1,318,495</u>	<u>\$ (126,498)</u>	<u>\$ (26,035)</u>	<u>\$ 206,676</u>	<u>\$ 325,246</u>	<u>\$ 126,557</u>	<u>\$ 1,824,441</u>

Restricted Net Asset Reconciliation as of December 31, 2014:

	Restricted Net Position
Debt service	\$ 211,152
Street	24,413
Emergency	5,646
Social security	3,802
Special assessment deficiency	863
Special assessment	3,045
Advertising	2,885
Ambulance	189
Fire, building, and equipment	7
Business enhancement	21,632
Airport	4,244
Infrastructure	384,239
Haliburton related expenses*	150,018
	<u>\$ 812,135</u>

*See note 4 for further details.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 11 TRANSFERS

The following is a reconciliation of transfers in and transfers out as reported in the basic financial statements for the years ended December 31, 2014:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental Funds:</u>		
General	\$ -	\$ 31,523
<u>Proprietary Funds:</u>		
Water	31,523	-
Total transfers	<u>\$ 31,523</u>	<u>\$ 31,523</u>

Transfers are used to cover expenses before the fund had the revenue to pay these expenses and to close out funds no longer in use.

NOTE 12 NEW GASB POUNDNCEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statements establishes a definition of a pension plan that Reflects the primary activities associated with the pension arrangement—Determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB 68 is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning new pension liability. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

CITY OF RICHARDTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on their financial statements.

NOTE 13 COMMITMENTS

In March 2014, the City and the Richardton Taylor Rural Ambulance District (Ambulance District) entered into a contract to construct a new Ambulance/City Hall building for approximately \$1,265,982.

In September 2014, the City entered into a contract with the Ambulance District regarding the financing of the new Ambulance/City Hall building. Under this agreement, the costs of construction are to be split evenly between the City and the Ambulance District. The City's portion of the funds will be paid via excesses from oil and gas revenue taxes collected.

NOTE 14 SUBSEQUENT EVENTS

In March 2015, the City entered into an agreement with a company to purchase automated water meter reading equipment in the amount of \$70,701.

Subsequent events have been evaluated through September 9, 2015, which is the date these financial statements were available to be issued.

CITY OF RICHARDTON
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues:				
Taxes	\$ 372,900	\$ 372,900	\$ 673,325	\$ 300,425
Licenses, permits and fees	1,750	1,750	33,468	31,718
Intergovernmental	211,200	211,200	58,790	(152,410)
Charges for services	4,500	4,500	-	(4,500)
Interest income	120	120	198	78
Miscellaneous	825	825	2,674	1,849
Total revenues	<u>591,295</u>	<u>591,295</u>	<u>768,455</u>	<u>177,160</u>
Expenditures:				
Current:				
General government	296,219	296,219	134,017	162,202
Public safety	13,000	13,000	12,696	304
Health and welfare	-	-	83,769	(83,769)
Culture and recreation	-	-	15,565	(15,565)
Other	-	-	287,024	(287,024)
Total expenditures	<u>309,219</u>	<u>309,219</u>	<u>533,071</u>	<u>(223,852)</u>
Excess of revenues over (under) expenditures	<u>282,076</u>	<u>282,076</u>	<u>235,384</u>	<u>(46,692)</u>
Other financing sources:				
Transfers out	<u>-</u>	<u>-</u>	<u>(31,523)</u>	<u>(31,523)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>(31,523)</u>	<u>(31,523)</u>
Excess of revenues and other sources over expenditures	<u>\$ 282,076</u>	<u>\$ 282,076</u>	203,861	<u>\$ (78,215)</u>
Fund balance - January 1			<u>1,114,634</u>	
Fund balance - December 31			<u>\$ 1,318,495</u>	

See note to the Required Supplementary Information

CITY OF RICHARDTON
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2014

NOTE 1 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The City Commission adopts an annual budget on a basis consistent with the cash basis of accounting for the general fund, each special revenue fund and each debt service fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- On or before September 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 1, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 7.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

CITY OF RICHARDTON
COMBINING BALANCE SHEET - CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	Special Revenue Funds				
	Street	Insurance Reserve	Emergency	Social Security	Special Assessment Deficiency
Assets					
Assets:					
Cash and cash equivalents	\$ 24,413	\$ -	\$ 5,646	\$ 3,802	\$ 863
Total assets	<u>\$ 24,413</u>	<u>\$ -</u>	<u>\$ 5,646</u>	<u>\$ 3,802</u>	<u>\$ 863</u>
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	\$ -	\$ 3,615	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>3,615</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted	24,413	-	5,646	3,802	863
Unassigned	-	(3,615)	-	-	-
Total fund balances	<u>24,413</u>	<u>(3,615)</u>	<u>5,646</u>	<u>3,802</u>	<u>863</u>
Total liabilities and fund balances	<u>\$ 24,413</u>	<u>\$ -</u>	<u>\$ 5,646</u>	<u>\$ 3,802</u>	<u>\$ 863</u>

CITY OF RICHARDTON
COMBINING BALANCE SHEET - CASH BASIS - CONTINUED
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	Special Revenue Funds					
	City Share of Special Assessment	Advertising	Planning	Ambulance	Fire Building and Equipment	Infrastructure
Assets						
Assets:						
Cash and cash equivalents	\$ 3,045	\$ 2,885	\$ -	\$ 189	\$ 7	\$ 58,993
Total assets	<u>\$ 3,045</u>	<u>\$ 2,885</u>	<u>\$ -</u>	<u>\$ 189</u>	<u>\$ 7</u>	<u>\$ 58,993</u>
Liabilities and Fund Balances						
Liabilities:						
Due to other funds	\$ -	\$ -	\$ 23	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted	3,045	2,885	-	189	7	58,993
Unassigned	-	-	(23)	-	-	-
Total fund balances	<u>3,045</u>	<u>2,885</u>	<u>(23)</u>	<u>189</u>	<u>7</u>	<u>58,993</u>
Total liabilities and fund balances	<u>\$ 3,045</u>	<u>\$ 2,885</u>	<u>\$ -</u>	<u>\$ 189</u>	<u>\$ 7</u>	<u>\$ 58,993</u>

CITY OF RICHARDTON
COMBINING BALANCE SHEET - CASH BASIS - CONTINUED
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	<u>Special Revenue Funds</u>		Total Special Revenue Funds	<u>Debt Service Fund</u>	Total Nonmajor Governmental Funds
	Business Enhancement	Airport		Street Improvement District #6	
Assets					
Assets:					
Cash and cash equivalents	\$ 21,632	\$ 4,244	\$ 125,719	\$ 4,476	\$ 130,195
Total assets	<u>\$ 21,632</u>	<u>\$ 4,244</u>	<u>\$ 125,719</u>	<u>\$ 4,476</u>	<u>\$ 130,195</u>
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	\$ -	\$ -	\$ 3,638	\$ -	\$ 3,638
Total liabilities	<u>-</u>	<u>-</u>	<u>3,638</u>	<u>-</u>	<u>3,638</u>
Fund balances:					
Restricted	21,632	4,244	125,719	4,476	130,195
Unassigned	<u>-</u>	<u>-</u>	<u>(3,638)</u>	<u>-</u>	<u>(3,638)</u>
Total fund balances	<u>21,632</u>	<u>4,244</u>	<u>122,081</u>	<u>4,476</u>	<u>126,557</u>
Total liabilities and fund balances	<u>\$ 21,632</u>	<u>\$ 4,244</u>	<u>\$ 125,719</u>	<u>\$ 4,476</u>	<u>\$ 130,195</u>

CITY OF RICHARDTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds				
	Street	Insurance Reserve	Emergency	Social Security	Special Assessment Deficiency
Revenues:					
Taxes	\$ 45,514	\$ 4,161	\$ 1,298	\$ 6,515	\$ 3
Intergovernmental	372	-	-	-	-
Miscellaneous	-	695	-	-	-
Total revenues	<u>45,886</u>	<u>4,856</u>	<u>1,298</u>	<u>6,515</u>	<u>3</u>
Expenditures:					
Current:					
General government	-	6,583	-	8,786	-
Public safety	1,683	-	-	-	-
Public works	48,741	-	-	-	-
Culture and recreation	-	-	-	-	-
Other	12,174	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	<u>62,598</u>	<u>6,583</u>	<u>-</u>	<u>8,786</u>	<u>-</u>
Excess of revenues over (under) expenditures	(16,712)	(1,727)	1,298	(2,271)	3
Fund balance - January 1	<u>41,125</u>	<u>(1,888)</u>	<u>4,348</u>	<u>6,073</u>	<u>860</u>
Fund balance - December 31	<u>\$ 24,413</u>	<u>\$ (3,615)</u>	<u>\$ 5,646</u>	<u>\$ 3,802</u>	<u>\$ 863</u>

CITY OF RICHARDTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – CASH BASIS - CONTINUED
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Special Revenue Funds					
	City Share of Special Assessment	Advertising	Planning	Ambulance	Fire Building and Equipment	
Revenues:						
Taxes	\$ 1	\$ 523	\$ 527	\$ 130	\$ -	\$ 35,098
Intergovernmental	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>1</u>	<u>523</u>	<u>527</u>	<u>130</u>	<u>-</u>	<u>35,098</u>
Expenditures:						
Current:						
General government	-	227	87	-	-	-
Public safety	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Other	-	-	-	-	-	1,000
Debt service:						
Principal retirement	-	-	-	-	-	15,000
Interest and fiscal charges	-	-	-	-	-	5,695
Total expenditures	<u>-</u>	<u>227</u>	<u>87</u>	<u>-</u>	<u>-</u>	<u>21,695</u>
Excess of revenues over (under) expenditures	1	296	440	130	-	13,403
Fund balance - January 1	3,044	2,589	(463)	59	7	45,590
Fund balance - December 31	<u>\$ 3,045</u>	<u>\$ 2,885</u>	<u>\$ (23)</u>	<u>\$ 189</u>	<u>\$ 7</u>	<u>\$ 58,993</u>

CITY OF RICHARDTON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – CASH BASIS - CONTINUED
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Special Revenue Funds</u>		Total Special Revenue Funds	<u>Debt Service Fund</u>	Total
	Business Enhancement	Airport		Street Improvement District #6	
Revenues:					
Taxes	\$ 7,020	\$ 3,294	\$ 104,084	\$ -	\$ 104,084
Intergovernmental	-	-	372	-	372
Miscellaneous	-	-	695	-	695
Total revenues	<u>7,020</u>	<u>3,294</u>	<u>105,151</u>	<u>-</u>	<u>105,151</u>
Expenditures:					
Current:					
General government	-	-	15,683	-	15,683
Public safety	-	-	1,683	-	1,683
Public works	-	-	48,741	-	48,741
Culture and recreation	3,028	-	3,028	-	3,028
Other	-	1,897	15,071	-	15,071
Debt service:			-		
Principal retirement	-	-	15,000	-	15,000
Interest and fiscal charges	-	-	5,695	-	5,695
Total expenditures	<u>3,028</u>	<u>1,897</u>	<u>104,901</u>	<u>-</u>	<u>104,901</u>
Excess of revenues over (under) expenditures	3,992	1,397	250	-	250
Fund balance - January 1	17,640	2,847	121,831	4,476	126,307
Fund balance - December 31	<u>\$ 21,632</u>	<u>\$ 4,244</u>	<u>\$ 122,081</u>	<u>\$ 4,476</u>	<u>\$ 126,557</u>

CITY OF RICHARDTON
COMBINING STATEMENT OF NET POSITION - CASH BASIS
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2014

<u>Assets</u>	<u>Garbage</u>	<u>Sewer</u>	<u>Transfer Account</u>	<u>Water Replacement</u>	<u>RD E&E RES</u>	<u>Total</u>
Assets:						
Cash and cash equivalents	\$ 2,080	\$ 38,067	\$ 953	\$ 20,827	\$ 8,960	\$ 70,887
Total assets	<u>\$ 2,080</u>	<u>\$ 38,067</u>	<u>\$ 953</u>	<u>\$ 20,827</u>	<u>\$ 8,960</u>	<u>\$ 70,887</u>
<u>Liabilities and Net Position</u>						
Net position						
Unrestricted	\$ 2,080	\$ 38,067	\$ 953	\$ 20,827	\$ 8,960	\$ 70,887
Total net position	<u>\$ 2,080</u>	<u>\$ 38,067</u>	<u>\$ 953</u>	<u>\$ 20,827</u>	<u>\$ 8,960</u>	<u>\$ 70,887</u>

CITY OF RICHARDTON
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - CASH BASIS
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Garbage</u>	<u>Sewer</u>	<u>Transfer Account</u>	<u>Water Replacement</u>	<u>RD E&E RES</u>	<u>Total</u>
Operating revenues:						
Charges for sales and services:						
Water operations	\$ -	\$ -	\$ -	\$ 14,815	\$ -	\$ 14,815
Sewer operations	-	56,318	-	-	-	56,318
Garbage operations	78,441	-	-	-	-	78,441
Total operating revenues	<u>78,441</u>	<u>56,318</u>	<u>-</u>	<u>14,815</u>	<u>-</u>	<u>149,574</u>
Operating expenditures:						
Sewer	-	54,555	-	-	-	54,555
Garbage	95,619	-	-	-	-	95,619
Total operating expenses	<u>95,619</u>	<u>54,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,174</u>
Change in net position	(17,178)	1,763	-	14,815	-	(600)
Net Position - January 1	<u>19,258</u>	<u>36,304</u>	<u>953</u>	<u>6,012</u>	<u>8,960</u>	<u>71,487</u>
Net Position - December 31	<u>\$ 2,080</u>	<u>\$ 38,067</u>	<u>\$ 953</u>	<u>\$ 20,827</u>	<u>\$ 8,960</u>	<u>\$ 70,887</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

City Commission
City of Richardton
Richardton, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Richardton, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise City of Richardton's basic financial statements and have issued our report thereon dated September 9, 2015.

Internal Control Over Financial Reporting

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

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

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items

2014-002 and 2014-003 in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider the deficiency described as item 2014-001 in the accompany schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

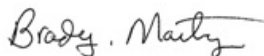
As part of obtaining reasonable assurance about whether City of Richardton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as items 2014-004, 2014-005, 2014-006 and 2014-007 in the accompanying schedule of findings and responses.

City of Richardton's Response to Findings

City of Richardton's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Richardton's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

September 9, 2015

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-001 - Auditor Preparation of Financial Statements

Criteria

An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with the cash basis of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the city commission. However, the City does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause

The City's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect

An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with the cash basis of accounting. However, the City is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation

We recommend that the City reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by City of Richardton's management that it is in the best interest of City of Richardton and all interested parties to have the footnotes to the financial statements prepared by the auditing firm at the time of the audit.

2014-002 - Segregation of Duties - Material Weakness

Criteria

Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition

There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the board.

Views of Responsible Officials and Planned Corrective Actions:

No response is considered necessary.

2014-003 - Material Journal Entries Proposed by Auditors - Material Weakness

Criteria

The City is required to maintain internal controls at a level where support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with the cash basis of accounting.

Condition

During our audit, adjusting journal entries were proposed in order to properly reflect the financial statements in accordance with the cash basis of accounting.

Cause

The City's internal controls have not been designed to address the specific training needs that are required to maintain the general ledger accounts on the cash basis of accounting.

Effect

An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the cash basis of accounting prior to the audit.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to audit. We recommend that the City reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally.

Views of Responsible Officials and Planned Corrective Actions

Due to the financial, efficiency and time constraints, it has been determined by the Board and the management of the City of Richardton that it is in the best interest of Board, the City of Richardton and all interested parties to have adjustments proposed by the auditing firm in order to for the general ledger accounts to be reflected on a the cash basis of accounting.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-004 – Cash Reserve

Criteria

The City is required to maintain a cash reserve in connection with their sales tax revenue bonds. The City did not establish a reserve for the year ended December 31, 2014.

Condition

The City did not meet the requirements of their agreement for the sales tax revenue bonds.

Cause

The City has not implemented policies and procedures for tracking and maintaining a cash reserve account for the special assessment bonds.

Effect

The City is not in compliance with the agreements of their sales tax revenue bonds.

Recommendation

The City should establish a separate account for the cash reserve required by the sales tax revenue bonds and review it on an on-going basis to ensure the account is properly funded with the required reserve.

Views of Responsible Officials and Planned Corrective Actions

The City plans to establish and maintain a cash reserve account.

2014-005 – Fund Accounting

Criteria

The City is required to maintain separate funds for both the sales tax revenue bonds and the refunding improvement bonds the City holds and account for debt proceeds, debt payments, and related revenues and expenses for each fund separately. This was not done as of December 31, 2014.

Condition

The City did not meet the requirements of their agreement for their bonds.

Cause

The City has not implemented policies and procedures for properly reporting funds for the sales tax revenue bonds and refunding improvement bonds as per the agreement.

Effect

The City is not in compliance with the agreements of their bonds.

Recommendation

The City should establish separate funds for both the sales tax revenue bonds and the refunding improvement bonds separate from any other current funds to account for the debt proceeds, payments, and related revenues and expenses associated with each bond.

Views of Responsible Officials and Planned Corrective Actions

The City plans to establish and maintain separate funds.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

2014-006 – Semi Annual Approval of Pledge Securities

Criteria

North Dakota Century Code 21-04-11 requires the board of commissioners to approve “any securities as a pledge for repayment of deposits” at least semiannually.

Condition

During fiscal year 2014, the board of commissioners approved pledged securities at their October 13, 2014 and November 10, 2014 meetings.

Cause

The City has not implemented policies and procedures to ensure the board of commissioners is reviewing a listing of pledged securities semi-annually.

Effect

The City is not in compliance with North Dakota Century Code requirements.

Recommendation

We recommend the City implement policies and procedures to ensure the listing of pledged securities is reviewed and approved by the board of commissioners at least semi-annually.

Views of Responsible Officials and Planned Corrective Actions

The Commission has been reviewing the pledges of securities as they are received.

2014-007 – Bid Requirements and Monitoring of Construction

Criteria

North Dakota Century Code (NDCC) 48-01.2-04 requires the governing body to publish all advertisements of bids for three successive weeks with the first publication at least twenty-one days prior to the date of the opening bids. The contents of the advertisements for bids must meet the guidelines stated in NDCC 48-01.2-05. The bid opening must take place at time and place specified in the public notice per NDCC (48-01.2-07). The contract must be awarded to the lowest responsible bidder per NDCC 48-01.2-07.

The governing body should also acquire from the contractor a bond before permitting any work to be done on the contract. The bond must be for an amount equal at least to the price stated in the contract (NDCC 48-01.2-10).

The governing body should also require a statement from any person preparing the plans and specifications for a public building or facility that, in the professional judgment of that person, the plans and specifications are in conformance with the Americans with Disabilities Act accessibility guidelines (NDCC 48-01.2-24).

Condition

The City entered into a contract with an architect for the construction of a new ambulance building / city hall, however the City could not provide any documentation of a bidding process for the selection of the architect.

CITY OF RICHARDTON
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2014

Cause

The City entered into an agreement for construction of this building with the Richardton Taylor Rural Ambulance District and assumed they were following all laws and regulations.

Effect

The City may not be in compliance with North Dakota Century Code requirements. We were unable to test the bidding information the City was unable to provide us supporting documentation.

Recommendation

We recommend the City implement formal policies and procedures for guidelines they must follow when performing a significant construction project to ensure they are in compliance with all applicable North Dakota Century Code requirements.

Views of Responsible Officials and Planned Corrective Actions

Accept.