

CITY OF ROLLA

AUDIT REPORT

December 31, 2015

CITY OF ROLLA
ROLLA, NORTH DAKOTA

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For The Year Ended December 31, 2015

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CITY OF ROLLA
LIST OF OFFICIALS
December 31, 2015

Scott Mitchell	Mayor
Rebecca Albert	Councilwoman
Christopher Albertson	Councilman
Lyman Bercier	Councilman
Patrick Hemmy	Councilman
Jerry Sparrow	Councilman
LeAnn Vollmer	Councilwoman
Mae Murphy	City Auditor

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

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 Rolla as of December 31, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as 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.

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rolla's basic financial statements. The City's share of net pension liability and employer contributions on page 33 and the budgetary comparison information on pages 34 through 35, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Emphasis of Matters

Adoption of New Accounting Standard

As described in Notes 1 and 9 to the financial statements, the City of Rolla adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. As described in Notes 1 and 9 to the financial statements, the City of Rolla has restated the previously reported net position to account for pension liabilities and expenses in accordance with this Statement. Our opinion is not modified with respect to this matter.

INDEPENDENT AUDITOR'S REPORT

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rolla's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017, on our consideration of the City of Rolla'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 Rolla's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
January 31, 2017

City of Rolla
Statement of Net Position - Modified Cash Basis
December 31, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Rolla Job Development Authority	Rolla Airport Authority
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 1,656,704	\$ 2,784,467	\$ 4,441,171	\$ 227,216	\$ 20,844
Investments	<u>36,625</u>	<u>276,880</u>	<u>313,505</u>	<u>216,520</u>	<u>230,445</u>
Total Current Assets	1,693,329	3,061,347	4,754,676	443,736	251,289
Non-Current Assets:					
Notes Receivable	-	-	-	80,965	-
Net Capital Assets	<u>5,097,608</u>	<u>7,554,018</u>	<u>12,651,626</u>	<u>20,922</u>	<u>1,464,019</u>
Total Non-Current Assets	<u>5,097,608</u>	<u>7,554,018</u>	<u>12,651,626</u>	<u>101,887</u>	<u>1,464,019</u>
TOTAL ASSETS	6,790,937	10,615,365	17,406,302	545,623	1,715,308
DEFERRED OUTFLOWS OF RESOURCES					
Derived from Pensions	28,231	-	28,231	-	-
LIABILITIES					
Long-Term Liabilities:					
Portion Due or Payable within One Year					
Capital Leases Payable	29,555	-	29,555	-	-
Revenue Bonds Payable	-	55,000	55,000	-	-
Loans Payable	20,101	207,000	227,101	6,357	-
Bonds Payable	222,000	-	222,000	-	-
Portion Due or Payable after One Year					
Net Pension Liability	183,745	-	183,745	-	-
Capital Leases Payable	94,071	-	94,071	-	-
Revenue Bonds Payable	-	1,519,000	1,519,000	-	-
Loans Payable	102,478	4,646,897	4,749,375	39,232	-
Bonds Payable	<u>2,636,546</u>	<u>-</u>	<u>2,636,546</u>	<u>-</u>	<u>-</u>
Total Liabilities	3,288,496	6,427,897	9,716,393	45,589	-
DEFERRED INFLOWS OF RESOURCES					
Derived from Pensions	35,868	-	35,868	-	-
NET POSITION					
Net Investment in Capital Assets	1,992,857	3,957,564	5,950,421	20,922	1,464,019
Restricted for:					
Emergency Repair	-	327,880	327,880	-	-
Contingencies	561,714	-	561,714	-	-
Public Works and Streets	301,540	-	301,540	-	-
Economic Development	90,305	-	90,305	479,112	-
Capital Projects	118,666	-	118,666	-	-
Debt Service	339,027	-	339,027	-	-
Special Purposes	148,257	-	148,257	-	251,289
Unrestricted	<u>(57,562)</u>	<u>(97,976)</u>	<u>(155,538)</u>	<u>-</u>	<u>-</u>
Total Net Position	\$ 3,494,804	\$ 4,187,468	\$ 7,682,272	\$ 500,034	\$ 1,715,308

The accompanying notes are an integral part of this statement.

City of Rolla
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2015

Functions/Programs	Net (Expense) Revenue & Changes in Net Assets						Component Units		
	Expenses	Program Revenues			Primary Government			Rolla Job Development Authority	Rolla Airport Authority
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary Government									
Governmental Activities									
General Government	\$ 285,993	\$ 241,111	\$ -	\$ -	\$ (44,882)	\$ (44,882)			
Public Safety	318,778	3,900	-	-	(314,878)	(314,878)			
Public Works and Streets	259,562	-	260,027	-	465	465			
Culture and Recreation	133,024	-	-	-	(133,024)	(133,024)			
Conservation of Natural Resources	12,189	-	-	-	(12,189)	(12,189)			
Economic Development	30,375	-	-	-	(30,375)	(30,375)			
Interest on Long-Term Debt	107,122	-	-	-	(107,122)	(107,122)			
Total Governmental Activities	1,147,043	245,011	260,027	-	(642,005)	(642,005)			
Business-type Activities									
Water	241,742	327,377	-	-	\$ 85,635	85,635			
Sewer	114,042	121,599	-	-	7,557	7,557			
Sewer/Lagoon Improvements	90,620	56,965	-	106,283	72,628	72,628			
Garbage	242,212	236,159	-	-	(6,053)	(6,053)			
Water Projects	34,715	-	-	1,571,496	1,536,781	1,536,781			
Total Business-type Activities	723,331	742,100	-	1,677,779	1,696,548	1,696,548			
Total Primary Government	\$ 1,870,374	\$ 987,111	\$ 260,027	\$ 1,677,779	(642,005)	1,696,548	1,054,543		
Component Units									
Rolla Job Development Authority	\$ 66,120	\$ -	\$ -	\$ -			\$ (66,120)		
Rolla Airport Authority	\$ 26,966	\$ -	\$ 1,024,561	\$ -				\$ 997,595	
General Revenues:									
Taxes:									
Property Taxes, Levied for General Purpose				134,663	-	134,663	-	14,791	
Property Taxes, Levied for Special Reserve				576,638	-	576,638	-	-	
Property Taxes, Levied for Debt Service				946	-	946	-	-	
City Sales Tax				53,246	140,862	194,108	53,246	-	
Gain (Loss) on Sale of Capital Asset				-	-	-	1,607	-	
Earnings on Investments				19,992	6,217	26,209	5,073	4,008	
Other Revenues				108,524	-	108,524	11,345	14,350	
Total General Revenues				894,009	147,079	1,041,088	71,271	33,149	
Excess (Deficiency) of Revenues Over (Under) Expenses				252,004	1,843,627	2,095,631	5,151	1,030,744	
Transfers				209,618	(209,618)	-	-	-	
Change in Net Position				461,622	1,634,009	2,095,631	5,151	1,030,744	
Net Position - Beginning of Year				3,228,338	2,553,459	5,781,797	494,883	684,564	
Prior Period Adjustment (See Note 9)				(195,156)	-	(195,156)	-	-	
Net Position - Beginning of Year, as Restated				<u>3,033,182</u>	<u>2,553,459</u>	<u>5,586,641</u>			
Net Position - End of Year				\$ 3,494,804	\$ 4,187,468	\$ 7,682,272	\$ 500,034	\$ 1,715,308	

The accompanying notes are an integral part of this statement.

City of Rolla
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2015

	Major Funds				
	General	Street Improvement #2015-1	Temporary Revenue Bonds 2014	Other Governmental Funds	
ASSETS					
Cash and Cash Equivalents	\$ 133,820	\$ 118,666	\$ -	\$ 1,404,218	\$ 1,656,704
Investments	-	-	-	36,625	36,625
TOTAL ASSETS	\$ 133,820	\$ 118,666	\$ -	\$ 1,440,843	\$ 1,693,329
FUND BALANCES					
Fund Balances:					
Restricted	\$ -	\$ -	\$ -	\$ 301,540	\$ 301,540
Committed for Debt Service	-	-	-	339,027	339,027
Committed for Capital Projects	-	118,666	-	-	118,666
Assigned	-	-	-	800,276	800,276
Unassigned, Reported in:					
General Fund	133,820	-	-	-	133,820
Total Fund Balances	133,820	118,666	-	1,440,843	1,693,329
TOTAL FUND BALANCES	\$ 133,820	\$ 118,666	\$ -	\$ 1,440,843	\$ 1,693,329
Total fund balances - governmental funds					\$ 1,693,329
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$6,332,965, and the accumulated depreciation is \$1,235,357.					5,097,608
Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet.					28,231
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.					(183,745)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.					(35,868)
Some liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:					
Loans Payable				\$ (122,579)	
Capital Leases Payable				(123,626)	
Bonds Payable				(2,858,546)	(3,104,751)
Net position of governmental activities					\$ 3,494,804

The accompanying notes are an integral part of this statement.

City of Rolla
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2015

	Major Funds				Total Governmental Funds
	General	Street Improvement #2015-1	Temporary Revenue Bonds 2014	Other Governmental Funds	
REVENUES					
Taxes	\$ 134,663	\$ -	\$ -	\$ 630,830	\$ 765,493
Licenses, Permits, and Fees	3,900	-	-	-	3,900
Intergovernmental	165,993	-	-	94,034	260,027
Charges for Services	36,576	-	-	144,811	181,387
Fines, Forfeitures, and Penalties	59,724	-	-	-	59,724
Interest	19,858	-	-	134	19,992
Miscellaneous	44,032	-	-	64,492	108,524
TOTAL REVENUES	464,746	-	-	934,301	1,399,047
EXPENDITURES					
Current:					
General Government	213,193	-	-	71,774	284,967
Public Safety	280,597	-	-	30,625	311,222
Public Works and Streets	-	1,071,593	1,489	276,431	1,349,513
Culture and Recreation	-	-	-	112,181	112,181
Conservation of Natural Resources	-	-	-	12,189	12,189
Economic Development	-	-	-	30,375	30,375
Debt Service:					
Principal	13,736	-	2,179,000	2,526,697	4,719,433
Interest	2,754	-	20,930	83,438	107,122
TOTAL EXPENDITURES	510,280	1,071,593	2,201,419	3,143,710	6,927,002
Excess (Deficiency) of Revenues Over (Under) Expenditures	(45,534)	(1,071,593)	(2,201,419)	(2,209,409)	(5,527,955)
OTHER FINANCING SOURCES (USES)					
Loan Proceeds	-	1,140,000	-	33,340	1,173,340
Transfers In (Out)	(12,263)	50,259	48,609	934,218	1,020,823
TOTAL OTHER FINANCING SOURCES (USES)	(12,263)	1,190,259	48,609	967,558	2,194,163
NET CHANGE IN FUND BALANCES	(57,797)	118,666	(2,152,810)	(1,241,851)	(3,333,792)
Fund Balances - January 1, 2015	191,617	-	2,152,810	2,682,694	5,027,121
FUND BALANCES - DECEMBER 31, 2015	\$ 133,820	\$ 118,666	\$ -	\$ 1,440,843	\$ 1,693,329

The accompanying notes are an integral part of this statement.

City of Rolla
 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in
 Fund Balances to the Statement of Activities - Modified Cash Basis
 For the year ended December 31, 2015

Net change in fund balances - total governmental funds \$ (3,333,792)

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

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

Capital assets purchased in the current period	\$ 1,215,603	
Depreciation expense of capital assets reported	<u>(158,851)</u>	
		1,056,752

Construction in progress started with temporary financing in the prior year was transferred to the enterprise funds. (811,205)

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

Debt Proceeds	(1,173,340)	
Payments on debt	<u>4,719,433</u>	
		3,546,093

Governmental funds report the pension expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. 3,774

Change in net position of governmental activities \$ 461,622

City of Rolla
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2015

	Major Enterprise Funds						Totals
	Water	Sewer/Lagoon Improvement #27	Water Projects	Water Improvement #2013-1	Water Plant Improvement #2015-2	Nonmajor Enterprise Funds	
ASSETS							
Current Assets:							
Cash and Cash Equivalents	\$ 140,260	\$ 605,450	\$ 13,000	\$ -	\$ 1,783,510	\$ 242,247	\$ 2,784,467
Due from Other Funds	-	-	-	-	20,474	-	20,474
Investments	-	-	100,000	-	-	176,880	276,880
Total Current Assets	140,260	605,450	113,000	-	1,803,984	419,127	3,081,821
Noncurrent Assets:							
Capital Assets:							
Land	-	94,000	-	-	-	-	94,000
Construction in Progress	-	-	-	3,762,929	327,980	-	4,090,909
Buildings & Building Improvements	1,491,611	250,000	-	-	-	-	1,741,611
Infrastructure	-	2,939,102	-	-	-	-	2,939,102
Equipment	49,692	146,851	-	-	-	21,200	217,743
Less: Accumulated Depreciation	(734,051)	(786,470)	-	-	-	(8,826)	(1,529,347)
Total Noncurrent Assets	807,252	2,643,483	-	3,762,929	327,980	12,374	7,554,018
TOTAL ASSETS	947,512	3,248,933	113,000	3,762,929	2,131,964	431,501	10,635,839
LIABILITIES							
Current Liabilities:							
Due to Other Funds	-	-	-	20,474	-	-	20,474
Revenue Bonds Payable	-	-	55,000	-	-	-	55,000
Loans Payable	-	185,000	22,000	-	-	-	207,000
Total Current Liabilities	-	185,000	77,000	20,474	-	-	282,474
Noncurrent Liabilities:							
Revenue Bonds Payable	-	-	430,000	-	1,089,000	-	1,519,000
Loans Payable	-	730,000	493,897	2,333,000	1,090,000	-	4,646,897
Total Noncurrent Liabilities	-	730,000	923,897	2,333,000	2,179,000	-	6,165,897
Total Liabilities	-	915,000	1,000,897	2,353,474	2,179,000	-	6,448,371
NET POSITION							
Net Investment in Capital Assets	807,252	1,728,483	-	1,409,455	-	12,374	3,957,564
Restricted, Expendable for							
Emergency Repair	10,999	-	100,001	-	-	216,880	327,880
Restricted for Capital Projects	-	-	-	-	-	-	-
Unrestricted	129,261	605,450	(987,898)	-	(47,036)	202,247	(97,976)
Total Net Position	\$ 947,512	\$ 2,333,933	\$ (887,897)	\$ 1,409,455	\$ (47,036)	\$ 431,501	\$ 4,187,468

The accompanying notes are an integral part of this statement.

City of Rolla
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2015

	Major Enterprise Funds						Total
	Water	Sewer/Lagoon Improvement #27	Water Projects	Water Improvement #2013-1	Water Plant Improvement #2015-2	Nonmajor Enterprise Funds	
OPERATING REVENUES:							
Charges for Services	\$ 327,377	\$ 56,965	\$ -	\$ -	\$ -	\$ 357,758	\$ 742,100
TOTAL OPERATING REVENUES	327,377	56,965	-	-	-	357,758	742,100
OPERATING EXPENSES:							
Salaries	47,213	-	-	-	-	68,797	116,010
Repairs and Maintenance	31,504	-	-	-	-	33,987	65,491
Utilities	39,579	-	-	-	-	8,180	47,759
Health Insurance	12,506	-	-	-	-	9,186	21,692
Telephone	1,123	-	-	-	-	1,747	2,870
Gas, Oil, Fuel and Grease	1,530	-	-	-	-	1,830	3,360
Supplies	14,090	-	-	-	-	8,116	22,206
Postage	-	-	-	-	-	3,800	3,800
Equipment	19,932	-	-	-	-	800	20,732
Contracted Services	34,461	-	-	-	-	215,571	250,032
Miscellaneous	66	1,202	-	-	-	-	1,268
Depreciation	39,738	76,724	-	-	-	4,240	120,702
TOTAL OPERATING EXPENSES	241,742	77,926	-	-	-	356,254	675,922
INCOME (LOSS) FROM OPERATIONS	85,635	(20,961)	-	-	-	1,504	66,178
NON-OPERATING REVENUES (EXPENSES):							
City Sales Tax	-	140,862	-	-	-	-	140,862
Special Assessments	-	106,283	-	-	-	-	106,283
Grants and Contributions	-	-	-	1,571,496	-	-	1,571,496
Miscellaneous	-	-	(1,009)	-	-	-	(1,009)
Interest Income	-	3,626	2,050	-	541	-	6,217
Interest Expense and Service Charges	-	(12,694)	(33,706)	-	-	-	(46,400)
TOTAL NON-OPERATING REVENUES (EXPENSES):	-	238,077	(32,665)	1,571,496	541	-	1,777,449
NET INCOME (LOSS) BEFORE TRANSFERS	85,635	217,116	(32,665)	1,571,496	541	1,504	1,843,627
Transfers In (Out)	(109,665)	-	109,665	(162,041)	(47,577)	-	(209,618)
CHANGE IN NET POSITION	(24,030)	217,116	77,000	1,409,455	(47,036)	1,504	1,634,009
Net Position - January 1, 2015	971,542	2,116,817	(964,897)	-	-	429,997	2,553,459
NET POSITION - DECEMBER 31, 2015	<u>\$ 947,512</u>	<u>\$ 2,333,933</u>	<u>\$ (887,897)</u>	<u>\$ 1,409,455</u>	<u>\$ (47,036)</u>	<u>\$ 431,501</u>	<u>\$ 4,187,468</u>

The accompanying notes are an integral part of this statement.

City of Rolla
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2015

	Major Enterprise Funds					Nonmajor Enterprise Funds	Total
	Water	Sewer/Lagoon Improvement #27	Water Projects	Water Improvement #2013-1	Water Plant Improvement #2015-2		
<u>Cash Flows from Operating Activities:</u>							
Receipts from Customers	\$ 327,377	\$ 56,965	\$ -	\$ -	\$ -	\$ 357,758	\$ 742,100
Payments to Suppliers	(154,791)	(1,202)	-	-	-	(283,217)	(439,210)
Payments to Employees	(47,213)	-	-	-	-	(68,797)	(116,010)
Net Cash Provided (Used) by Operating Activities	125,373	55,763	-	-	-	5,744	186,880
<u>Cash Flows from Noncapital Financing Activities:</u>							
Miscellaneous Revenue (Expense)	-	-	(1,009)	-	-	-	(1,009)
Taxes and Special Assessments	-	247,145	-	-	-	-	247,145
Due to (from) Other Funds	-	-	-	20,474	(20,474)	-	-
Transfers In (Out)	(109,665)	-	109,665	(162,041)	(47,577)	-	(209,618)
Net Cash Provided (Used) by Noncapital Financing Activities	(109,665)	247,145	108,656	(141,567)	(68,051)	-	36,518
<u>Cash Flows from Capital and Related Financing Activities:</u>							
Purchases and Construction of Capital Assets	(28,555)	-	-	(3,762,929)	(327,980)	-	(4,119,464)
Capital Grant Contributions	-	-	-	1,571,496	-	-	1,571,496
Issuance of Loans and Bonds Payable	-	-	-	2,333,000	2,179,000	-	4,512,000
Principal Paid on Capital Debt	-	(185,000)	(77,000)	-	-	-	(262,000)
Interest Paid on Capital Debt	-	(12,694)	(33,706)	-	-	-	(46,400)
Net Cash Provided (Used) by Capital and Related Financing Activities	(28,555)	(197,694)	(110,706)	141,567	1,851,020	-	1,655,632
<u>Cash Flows from Investing Activities:</u>							
Interest Income	-	3,626	2,050	-	541	-	6,217
Net Cash Provided by Investing Activities	-	3,626	2,050	-	541	-	6,217
Net Increase (Decrease) in Cash and Cash Equivalents	(12,847)	108,840	-	-	1,783,510	5,744	1,885,247
Cash and Cash Equivalents, January 1	153,107	496,610	13,000	-	-	236,503	899,220
Cash and Cash Equivalents, December 31	\$ 140,260	\$ 605,450	\$ 13,000	\$ -	\$ 1,783,510	\$ 242,247	\$ 2,784,467
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities							
Operating Income (Loss)	\$ 85,635	\$ (20,961)	\$ -	\$ -	\$ -	\$ 1,504	\$ 66,178
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</u>							
Depreciation Expense	39,738	76,724	-	-	-	4,240	120,702
Net Cash Provided (Used) by Operating Activities	\$ 125,373	\$ 55,763	\$ -	\$ -	\$ -	\$ 5,744	\$ 186,880

The accompanying notes are an integral part of this statement.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, the component units discussed below are included within the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Units: The component units' columns in the combined financial statements include the financial data of the City's other component units. They are reported in a separate column to emphasize that they are legally separate from the City.

The Airport Authority manages the local airport facility. The authority's five member board is appointed by the City Commission. The Authority is fiscally dependent upon the City because the City Council levies taxes and must approve any bond issuances. The board is also required to approve proposed capital improvements or additions to the authority's facilities. A separate audit report is not issued by the Rolla Airport Authority.

The Job Development Authority manages economic development in the Rolla area. The Authority serves the citizens of the City and is governed by a board appointed by the mayor. All transactions of the board are also reviewed and approved by the City's governing board. A separate audit report is not issued by the Rolla Job Development Authority.

The financial statements of the Airport Authority and Job Development Authority are reported as discretely presented component units in the basic financial statements.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

General Fund: The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Street Improvement #2015-1: This fund accounts for the street improvement project.

Temporary Revenue Bonds 2014: This fund accounts for the interim financing of the water system improvement project.

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

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Sewer/Lagoon Improvement #27: This fund accounts for resources used to construct a new lagoon cell for the City and improve the existing sewer/lagoon system.

Water Plant Improvement #2015-2: This fund accounts for the capital expense and financing for the water plant improvements project.

Water Improvement #2013-1: This fund accounts for the capital expense and financing for the water line replacement project.

Water Projects: This fund accounts for the capital expense and financing for major water projects.

C. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

D. Deposits

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

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

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

The bank balance of these deposits as of December 31, 2015 was \$5,585,199; the carrying balances at this date were \$5,449,701. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$500,000 was covered by Federal Depository Insurance and \$5,085,199 was collateralized with securities held by the pledging financial institution's agent but not in the City's name. During the year, the board reviewed the pledges of securities semi-annually as required by state law.

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

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

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

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Capital Assets

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

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

Buildings	20-50 years
Vehicles, Machinery, and Equipment	5-15 years
Infrastructure	50 years

F. Encumbrance Accounting

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

G. Long-Term Obligations

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

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

H. Interfund Transactions

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

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

I. 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.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

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

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

J. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

K. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 8 for additional information.

L. 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’s 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.

City of Rolla
Notes to the Financial Statements
December 31, 2015

M. New GAAP Implementation

Beginning in 2015, the City implemented GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, which provides information about financial support for pensions. This statement requires net pension liability to be reported on the face of the financial statements. A prior period adjustment of (\$195,156) was made to unrestricted net position to account for these items. Notes 9 and 10 contain additional information on this adjustment.

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 0.35 – 2.05 percent. At December 31, 2015, the City and its component units held certificates of deposit in the amount of \$760,470, which are all considered investment deposits.

NOTE 3 PROPERTY TAXES

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

Property taxes attach as an enforceable lien on property on January 1. A 5% reduction is allowed if paid by February 15th. Penalty and interest are added March 1st unless the first half of the taxes have been paid. Additional penalties are added October 15th if not paid. Taxes are collected by the county and usually remitted monthly to the City. Property taxes are limited by state laws. All city tax levies are in compliance with state laws.

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 property taxes.

NOTE 4 NOTES RECEIVABLE

The Rolla Job Development Authority provides loans to local businesses to assist in the retention and expansion of businesses and to improve infrastructure and services for the benefit of the community. At December 31, 2015, there were three outstanding notes with a balance of \$80,965. The terms of the notes vary with interest rates of 0% to 1.5%. Repayment terms vary and may be negotiated. Future minimum payments are as follows:

2016	\$	6,397
2017		6,494
2018		6,592
2019		6,692
2020		6,793
2021 - Later		47,997
	\$	<u>80,965</u>

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 5 CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2015:

	Governmental Activities	Business-type Activities	Component Units	
			Job Development Authority	Airport
Capital Assets not being depreciated				
Land	\$ 75,000	\$ 94,000	\$ 20,922	\$ 14,540
Construction in Progress	-	4,090,909	-	1,175,356
Capital Asset being depreciated				
Buildings	1,037,882	1,741,611	-	218,231
Infrastructure	4,420,562	2,939,102	-	-
Vehicles & Equipment	799,521	217,743	-	302,816
Total	6,332,965	9,083,365	20,922	1,710,943
Less Accumulated Depreciation	(1,235,357)	(1,529,347)	-	(246,924)
Net – 12/31/15	<u>\$ 5,097,608</u>	<u>\$ 7,554,018</u>	<u>\$ 20,922</u>	<u>\$ 1,464,019</u>

Depreciation is reported in the government-wide statement of activities. Depreciation expense for the year ended December 31, 2015 was charged to the following functions:

Governmental Activities	
General Government	\$ 4,800
Public Safety	36,060
Public Works and Streets	97,148
Culture and Recreation	20,843
Total Governmental Activities	158,851
Business-type Activities	120,702
Component Units:	
Airport	12,460
Total Depreciation Expense	<u>\$ 292,013</u>

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 5 CAPITAL ASSETS – CONTINUED

Following is a summary of changes in capital assets for the year ended December 31, 2015:

	<u>Component Units</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Job Development Authority</u>	<u>Airport</u>
Net Balance, December 31, 2014	\$ 4,852,058	\$ 3,555,256	\$ 79,315	\$ 388,049
Cost				
Purchases	1,215,606	4,119,464	-	1,088,430
Dispositions	(811,205)	-	(58,393)	-
Accumulated Depreciation				
Additions	(158,851)	(120,702)	-	(12,460)
Dispositions	-	-	-	-
Net Balance, December 31, 2015	<u>\$ 5,097,608</u>	<u>\$ 7,554,018</u>	<u>\$ 20,922</u>	<u>\$ 1,464,019</u>

NOTE 6 CAPITAL LEASES

The City has two lease agreements for financing the acquisition of a 2007 John Deere 770D Motor Grader and a 2008 Street Sweeper. The lease agreements qualify as capital leases for accounting purposes, and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations on the 2007 John Deere 770D Motor Grader and 2008 Street Sweeper and the net present value of the minimum lease payments are as follows:

	<u>Governmental Activities</u>		
	<u>Present Value of Minimum Lease Payments</u>	<u>Amount Representing Interest</u>	<u>Total Payment</u>
2016	\$ 29,555	\$ 3,695	\$ 33,250
2017	30,438	2,812	33,250
2018	31,348	1,902	33,250
2019	32,285	965	33,250
Total	<u>\$ 123,626</u>	<u>\$ 9,374</u>	<u>\$ 133,000</u>

Interest paid on capital leases for the year ended December 31, 2015 was \$4,553.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 7 LONG-TERM DEBT

At December 31, 2015, debt consisted of the following:

Governmental Activities

Capital Lease Payable: \$95,000, due in annual installments of \$15,240 through October 2019, interest rate at 2.50%.	\$	56,668
Capital Lease Payable: \$82,500 due in annual installments of \$18,010 through August 2019, interest rate at 2.50%.		66,958
Loan Payable: \$33,340 Dacotah Bank, due in monthly installments of \$595 through December 2022, interest rate at 2.67%.		33,340
Sales Tax Revenue Bonds, Series 2012: \$265,000 ND Public Finance Authority, due in semi-annual installments of \$51,000 to \$55,000 through June 2016, interest rate at 2.50%.		103,723
Loan Payable: \$102,975 Starion Financial, due in annual installments \$16,490 through October 2021, interest rate at 2.99%.		89,238
Water Revenue Bonds: \$190,000 ND Public Finance Authority, due in semi-annual installments of \$36,000 to \$40,000 through December 2017, interest rate at 2.50%.		117,000
Clean Water Loan: \$1,809,750 ND Public Finance Authority, due in semi-annual installments of \$74,750 to \$110,000 through September 2032, interest rate at 2.00%.		1,497,824
Refunding Improvement Bonds of 2015: \$940,000 Dougherty & Company LLC, due in annual installments of \$45,000 to \$75,000 through May 2029, interest rate of 0.50% to 3.00%.		940,000
Refunding Improvement Bonds of 2015, Series B: \$200,000 Due in two installments, \$95,000 in 2022 and \$105,000 in 2029, interest rates of 2.00% to 3.00%.		200,000
Total Governmental Activities Debt	<u>\$</u>	<u>3,104,751</u>

Component Units

Note Payable: \$16,520, Northern Plains Electrical Cooperative, due in monthly installments of \$146 through July 2, 2022, interest rate at 1.00%.	\$	11,150
Note Payable: \$48,480, Rural Development Finance Corporation, due in annual installments of \$5,119 through May 31, 2022, interest rate at 1.00%.		34,439
Total Component Units Debt	<u>\$</u>	<u>45,589</u>

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 7 LONG-TERM DEBT – CONTINUED

Business-type Activities

Loan Payable: \$860,000 Bank of North Dakota Loan, Bonds of 1993, Series A, due in annual installments from \$17,000 to \$36,000 through June 22, 2033, interest rate at 3.00%.	\$ 515,897
USDA Loan Payable: \$1,475,000 Sewer Improvement District No. 27, due in annual installments from \$155,000 to \$195,000 through April 2020, interest varies from 0.55% to 1.65%.	915,000
Loan Payable: \$1,089,000 Bank of North Dakota, due in annual installments from \$14,443 to \$45,740, interest rate of 3.00%	1,089,000
Loan Payable: \$1,090,000 USDA, due in annual installments from \$15,729 to \$43,161 through 2054, interest rate of 2.625%.	1,090,000
Loan Payable: \$2,333,000, USDA, due in annual installments from \$32,580 to \$95,212 through March 2055, interest rate of 2.75%.	2,333,000
Revenue Bond Payable: \$745,000, Refunding Water Bonds of 2011, due in annual installments of \$35,000 to \$175,000 through December 2021, interest varies from 1.25% to 3.75%.	485,000
Total Business-type Activities Debt	<u><u>\$ 6,427,897</u></u>

The following is a summary of debt transactions of the City for the year ended December 31, 2015:

	Balance 12/31/14	Issues	Payments	Balance 12/31/15	Due within one year
<u>Governmental Activities</u>					
Capital Leases Payable	\$ 152,323	\$ -	\$ 28,697	\$ 123,626	\$ 29,555
Loan Payable	102,975	33,340	13,736	122,579	20,101
Interim Financing	4,512,000	-	4,512,000	-	-
Bonds Payable	1,883,546	1,140,000	165,000	2,858,546	222,000
Total Governmental Type Activities	6,650,844	1,173,340	4,719,433	3,104,751	271,656
<u>Business-type Activities</u>					
Loan Payable	537,897	2,358,766	2,380,766	515,897	22,000
USDA Loan Payable	1,100,000	3,423,000	185,000	4,338,000	249,451
Revenue Bond Payable	540,000	1,089,000	55,000	1,574,000	74,443
Total Business Type Activities	2,177,897	6,870,766	2,620,766	6,427,897	345,894
<u>Component Unit</u>					
Notes Payable	51,947	-	6,358	45,589	6,420
Total Component Unit	51,947	-	6,358	45,589	6,420
Total Government	\$ 8,880,688	\$ 8,044,106	\$ 7,346,557	\$ 9,578,237	\$ 623,970

Interest paid by governmental activities for the year ended December 31, 2015 was \$107,122. Interest and fees paid by business-type activities for the year ended December 31, 2015 was \$46,400. Interest paid by the component unit for the year ended December 31, 2015 was \$511.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 7 LONG-TERM DEBT – CONTINUED

The annual requirements to amortize the capital leases, loans and bonds outstanding at December 31, 2015, are as follows:

Year Ending December 31	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$ 271,656	\$ 64,867	\$ 345,894	\$ 168,137	\$ 6,420	\$ 449	\$ 857,423
2017	294,877	59,053	338,092	162,257	6,484	385	861,148
2018	252,668	53,512	340,899	155,365	6,549	320	809,313
2019	214,226	48,742	352,756	147,940	6,614	255	770,533
2020	187,579	44,263	315,499	140,299	6,681	188	694,509
2021-2025	885,921	167,192	695,678	613,384	12,841	177	2,375,193
2026-2030	870,000	64,917	598,996	499,838	-	-	2,033,751
2031-2035	127,824	5,615	606,502	441,700	-	-	1,181,641
2036-2040	-	-	578,631	363,203	-	-	941,834
2041-2045	-	-	663,778	278,056	-	-	941,834
2046-2050	-	-	761,348	180,487	-	-	941,835
2051-2055	-	-	829,824	68,540	-	-	898,364
Total	<u>\$ 3,104,751</u>	<u>\$ 508,161</u>	<u>\$ 6,427,897</u>	<u>\$ 3,219,206</u>	<u>\$ 45,589</u>	<u>\$ 1,774</u>	<u>\$ 13,307,378</u>

NOTE 8 DEFERRED OUTFLOWS AND INFLOWS OF REOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of December 31, 2015 are as follows:

Deferred Outflows of Resources	
Derived from pension - NDPERS	<u>\$ 28,231</u>
Deferred Inflows of Resources	
Derived from pension - NDPERS	<u>\$ 35,868</u>

Note 10 of the financial statements contains detail of the pension plan.

NOTE 9 RESTATEMENT OF NET POSITION

The beginning net position has been restated to reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The effect on beginning net position is as follows:

Net Position - Beginning of Year, as previously reported	\$ 3,228,338
Restatement of accounting for pensions	(195,156)
Net Position - Beginning of Year, as restated	<u>\$ 3,033,182</u>

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

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

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

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

Pension Benefits

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

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

Death and Disability Benefits

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

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

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

Refunds of Member Account Balance

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

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

- 1 to 12 months of service – Greater of 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

Member and Employer Contributions

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

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

At December 31, 2015, the City reported a liability of \$183,745 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At July 1, 2014, the City's proportion was 0.028949%.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

For the year ended December 31, 2015, the City recognized pension expense of \$18,181. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,957	\$ -
Net difference between projected and actual earnings on pension plan investments	-	35,868
Employer contributions subsequent to the measurement date (see below)	22,274	-
Total	\$ 28,231	\$ 35,868

\$22,274 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016.

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

For the year ended December 31,	
2016	\$ (7,699)
2017	(7,699)
2018	(7,699)
2019	(7,699)
2020	885
Thereafter	-

Actuarial Assumptions

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

Inflation	3.50%
Salary Increases	3.85% per annum for four years, then 4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

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

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

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

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

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

Discount Rate

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

Sensitivity of the Employer’s proportionate share of the net pension liability to changes in the discount rate

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

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
Employer's proportionate share of the net pension liability	\$ 283,390	\$ 183,745	\$ 100,429

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 10 PENSION PLAN – CONTINUED

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 11 RISK MANAGEMENT

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

In 1986 state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence. There have been no losses that exceeded the coverage in the last three years.

The City continues to carry commercial insurance for all other risks of loss, including North Dakota Fire and Tornado Fund, State Bonding, workers' compensation and employee health and accident insurance.

NOTE 12 LEGAL COMPLIANCE

The governing board approved an over/under report for the year ended December 31, 2015 in February 2016. This included approving the following for major funds.

Revenues over budget of \$27,458 for the general fund were approved in February 2016. Amounts were not allocated to specific line items so the final budgets presented do not include these items. With this adjustment, the general fund revenues would be over budget by \$48,916. Expenditures over budget of \$35,599 for the general fund were also approved in February 2016. Amounts were not allocated to specific line items so the final budgets presented do not include these adjustments. With this adjustment, general fund expenditures would be over budget by \$41,322. No remedial action is anticipated or required by the City regarding these excess expenditures.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 13 INTERFUND TRANSFERS

At December 31, 2015, fund transfers consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
Major		
General	\$ -	\$ 12,263
Street Improvement #2015-1	50,259	-
Temporary Revenue Bonds 2014	48,609	-
Non-Major		
City Sales Tax	-	103,337
Contingency	-	116,621
Seal Coat #2012-1	53,500	-
Improvement Dist. #2012-2 Reserve	38,535	-
Improvement Dist. #2012-2 Debt Service	151,357	-
Improvement Dist. #2012-2	-	93,907
Water Improvement #2013-1 Reserve	9,696	
Street Improvement #2015-1 Specials	49,741	
Infrastructure	-	151,357
Water Improvement Dist. #2013-1	1,066,221	-
Forestry	1,500	-
Rolla Community Center	14,000	-
Street Improvement #2015-1 Debt	14,890	-
Business-type Funds:		
Water	-	109,665
Water Improvement #2013-1	-	973,246
Water Plant Improvement #2015-2	-	47,577
Water Project	109,665	-
Total	<u>\$1,607,973</u>	<u>\$ 1,607,973</u>

The transfers were made to help fund debt payments, cover project costs until reimbursement requests received, and general operations of funds with low cash reserves.

NOTE 14 DEFICIT FUND BALANCES/NET POSITION

The following had a deficit fund balance/net position at December 31, 2015:

Water Projects	\$ 887,897
Water Plant Improvement #2015-2	\$ 47,036

The City plans to eliminate these deficits with future revenue collections.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 15 SUBSEQUENT EVENTS

In March 2016, the City approved the bids for the Water Improvement District #2015-2 project. Contract #1 to American General Contractors for \$1,958,606 and Contract #2 to Wagner Construction for \$383,958.

In May 2016, the City approved the Water Treatment Plant Expansion Filter quote of \$150,030 from Filtronics.

In May 2016, the City approved the Water Treatment Plant Improvements electrical quote of \$158,700 from Sweeney Controls Company.

In May 2016, the City approved making a pre-payment of \$380,000 on the Sewer Lagoon Project #527 Series 2012 Bonds.

In August 2016, the City approved to pay an estimated \$76,000 for city utilities to the new jail in equal payments to Rolette County over three years.

In November 2016, the City approved the purchase of a Bobcat skid steer, allowing the Public Works Committee to approve the financing option. The loan for the skid steer was closed in January 2017.

In November 2016, the City passed the motion to set effective date of the service month of January 2017 for the rate increase of \$19.00 per month for Water Treatment Plant Improvement Project #2015-2 Debt Service. This rate increase was voted and passed on February 24, 2015 at a special city election.

City of Rolla
Notes to the Financial Statements
December 31, 2015

NOTE 16 FUND BALANCES

At December 31, 2015, a summary of the governmental fund balance classifications are as follows:

	General Fund	Street Improvement #2015-1	Temp Revenue Bonds 2014	Other Governmental Funds	Total
Restricted					
Highway	\$ -	\$ -	\$ -	\$ 301,335	\$ 301,335
Special Assessment Deficiency	-	-	-	205	205
Committed					
Street Improvement #2015-1	-	118,666	-	-	118,666
Water Improvement #2013-1 Reserve	-	-	-	9,696	9,696
Temporary Revenue Bonds 2014	-	-	-	-	-
Street Improvement #2015-1 Specials	-	-	-	49,741	49,741
Special Assessments	-	-	-	994	994
Infrastructure	-	-	-	103,400	103,400
Seal Coat 2012-1	-	-	-	58,126	58,126
Improvement District #2012-2 Reserve	-	-	-	117,070	117,070
Assigned					
Contingency	-	-	-	561,714	561,714
Social Security	-	-	-	1,193	1,193
Emergency	-	-	-	16,363	16,363
Cemetery	-	-	-	26,894	26,894
Employee Retirement	-	-	-	1,041	1,041
Insurance	-	-	-	35,898	35,898
Correction Facility	-	-	-	2,082	2,082
Forestry	-	-	-	5,354	5,354
Library	-	-	-	24,816	24,816
City Sales Tax	-	-	-	90,305	90,305
Public Recreation	-	-	-	3,422	3,422
City Promotion/Events	-	-	-	4,002	4,002
Rolla Community Center	-	-	-	18,103	18,103
Horizons Program	-	-	-	9,089	9,089
Unassigned					
General	133,820	-	-	-	133,820
	<u>\$ 133,820</u>	<u>\$ 118,666</u>	<u>\$ -</u>	<u>\$ 1,440,843</u>	<u>\$ 1,693,329</u>

**SUPPLEMENTARY
INFORMATION**

City of Rolla
 Supplementary Information
 For the Year Ended December 31, 2015

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

	2015
Employer's proportion of the net pension liability (asset)	0.028949%
Employer's proportionate share of the net pension liability (asset)	\$ 183,745
Employer's covered-employee payroll	\$ 243,868
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%
Plan fiduciary net position as a percentage of the total pension liability	77.70%

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

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

	2015
Statutorily required contribution	\$ 17,363
Contributions in relation to the statutorily required contribution	\$ (17,363)
Contribution deficiency (excess)	\$ -
Employer's covered-employee payroll	\$ 243,868
Contributions as a percentage of covered-employee payroll	7.12%

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

See independent auditor's report and notes to financial statements.

City of Rolla
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2015

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final ***</u>	<u>Actual (Budgetary Basis)</u>	
REVENUES				
Taxes	\$ 126,872	\$ 126,872	\$ 134,663	\$ 7,791
Licenses, Permits, and Fees	4,350	4,350	3,900	(450)
Intergovernmental	155,700	155,700	165,993	10,293
Charges for Services	36,000	36,000	36,576	576
Fines, Forfeitures, and Penalties	55,000	55,000	59,724	4,724
Interest	8,500	8,500	19,858	11,358
Miscellaneous	1,950	1,950	44,032	42,082
TOTAL REVENUES	388,372	388,372	464,746	76,374
EXPENDITURES				
Current:				
General Government	154,834	154,834	213,193	(58,359)
Public Safety	278,525	278,525	280,597	(2,072)
Debt Service:				
Principal	-	-	13,736	(13,736)
Interest	-	-	2,754	(2,754)
TOTAL EXPENDITURES	433,359	433,359	510,280	(76,921)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(44,987)	(44,987)	(45,534)	(547)
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	14,000	14,000	(12,263)	(26,263)
TOTAL OTHER FINANCING SOURCES (USES)	14,000	14,000	(12,263)	(26,263)
NET CHANGE IN FUND BALANCES	(30,987)	(30,987)	(57,797)	(26,810)
Fund Balances - January 1, 2015	191,617	191,617	191,617	-
FUND BALANCES - DECEMBER 31, 2015	\$ 160,630	\$ 160,630	\$ 133,820	\$ (26,810)

*** Does not include over/under amounts approved in total by the City Council in February 2016.

The accompanying notes are an integral part of this statement.

City of Rolla
Notes to Required Supplementary Information
December 31, 2015

NOTE 1 BUDGETS

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

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

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

CITY OF ROLLA
Schedule of Expenditures of Federal Awards
For The Year Ended December 31, 2015

Pass Through Number	Federal Domestic Assistance Number	Program Title	Federal Expenditures
Department of Housing and Urban Development			
Passed through North Dakota Department of Commerce			
N/A	14.228	Community Development Block Grants	\$ 60,887
Department of Homeland Security			
Passed through North Dakota Department of Emergency Services			
N/A	97.039	Hazard Mitigation Grant (HMGP)	165,940
United States Department of Agriculture - Rural Development			
N/A	10.760	Water and Waste Disposal Systems for Rural Communities	2,661,313
Department of Transportation			
Passed through Federal Aviation Administration			
N/A	20.106	Airport Improvement Program *	965,005
Passed through North Dakota Department of Transportation			
N/A	20.609	Safety Belt Performance Grants	<u>224</u>
		Total Department of Transportation	<u>965,229</u>
		TOTAL FEDERAL GRANT EXPENDITURES	<u><u>\$ 3,853,369</u></u>

* Note: The airport is a discretely presented component unit of the City of Rolla.

City of Rolla
Notes to Schedule of Expenditures of Federal Awards
For the Year Ending December 31, 2015

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Federal Financial Assistance - Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. The City of Rolla received no nonmonetary federal assistance during the year ended December 31, 2015. Federal financial assistance does not include direct federal cash assistance to individuals.

Catalog of Federal Domestic Assistance – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government wide compendium of individual federal programs.

B. Major Programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish type A and type B programs was \$750,000.

C. Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

D. Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the modified cash basis of accounting.

E. Elections

The organization has not elected to use the 10 percent de minimis indirect cost rate.

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*

Governing Board
City of Rolla
Rolla, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rolla, North Dakota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Rolla's basic financial statements and have issued our report thereon dated January 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Rolla'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 Rolla's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Rolla'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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider deficiencies 2015-001 through 2015-003 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rolla'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 Rolla's Response to Findings

The City of Rolla's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Rolla'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.



Mahlum Goodhart, PC
Mandan, North Dakota
January 31, 2017

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

Governing Board
City of Rolla
Rolla, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Rolla, North Dakota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Rolla's major federal programs for the year ended December 31, 2015. The City of Rolla's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Programs

In our opinion, the City of Rolla complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2015-006. Our opinion on each major federal program is not modified with respect to this matter.

The City of Rolla's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Rolla's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-004 to 2015-005 to be material weaknesses.

The City of Rolla's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Rolla's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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



Mahlum Goodhart, PC
Mandan, North Dakota
January 31, 2017

City of Rolla
 Schedule of Findings and Questioned Costs
 For the Year Ended December 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:
 Governmental Activities Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes
 Significant deficiencies identified? No
 Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified? Yes
 Significant deficiencies identified? No
 Type of auditor's report issued on compliance for major federal programs? Unmodified

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

Identification of major federal programs:

20.106	Airport Improvement Program	
10.760	Water and Waste Disposal Systems for Rural Communities	

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? No

City of Rolla
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Section II - Financial Statement Findings

2015-001 Segregation of Duties

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

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

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

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

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

Client Response – The City Council is aware of how inadequate segregation of duties could affect the City, but due to the limited resources it is not possible to hire additional staff to segregate duties.

2015-002 Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

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

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

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

Client Response – The City Council reviews the monthly and year-end financials prepared by the City's auditors. Due to the size of the City and time constraints, the City Council has determined that the City's auditors should continue to prepare the financial statements.

City of Rolla
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

2015-003 Journal Entries

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

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The classification of transactions are not properly monitored and capital asset activity is not being properly recorded.

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

Recommendation – All general ledger accounts, including capital assets, should be reviewed monthly by the Council for adequacy and accuracy of classification of transactions.

Client Response – The City Council is aware that several journal entries were required during the audit. General ledger accounts will be reviewed monthly for accuracy of classification of transactions.

Section III – Federal Award Findings

2015-004 Segregation of Duties

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

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

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

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

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

Client Response – The City Council is aware of how inadequate segregation of duties could affect the City, but due to the limited resources it is not possible to hire additional staff to segregate duties.

City of Rolla
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

2015-005 Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

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

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

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

Client Response – The City Council reviews the monthly and year-end financials prepared by the City’s auditors. Due to the size of the City and time constraints, the City Council has determined that the City’s auditors should continue to prepare the financial statements.

Noncompliance

2015-006 Compliance with the September 30 Deadline

Condition – The City did not file their federal audit within nine months after their fiscal year end of December 31, 2015.

Criteria – The Uniform Guidance requires that a federal audit must be conducted and filed within nine months of the City’s fiscal year end. The City’s fiscal year ended December 31, 2015, therefore, the federal audit deadline was September 30, 2016.

Cause – Due to the number of grants and loans through the City in 2015 additional time was needed to properly report the federal expenditures.

Effect – The audit was not completed until after the filing deadline.

Recommendation – Additional resources should be allocated to allow staff adequate time to properly account for the additional federal activities.

Client Response – Due to having various projects occurring during the year with multiple financing sources adequate time was not allowed to account for all additional federal activities. For future periods staff is now aware that additional resources should be used to track the federal activities.

City of Rolla
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Section IV – Prior Audit Findings

Financial Statement Findings

2014-001 Segregation of Duties

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

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

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

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

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

Client Response – The City Council is aware of how inadequate segregation of duties could affect the City, but due to the limited resources it is not possible to hire additional staff to segregate duties.

Current Status – The finding is repeated in the current year.

2014-002 Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

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

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

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

Client Response – The City Council reviews the monthly and year-end financials prepared by the City’s auditors. Due to the size of the City and time constraints, the City Council has determined that the City’s auditors should continue to prepare the financial statements.

Current Status – The finding is repeated in the current year.

City of Rolla
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

2014-003 Journal Entries

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

Criteria – The City is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The classification of transactions are not properly monitored and capital asset activity is not being properly recorded.

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

Recommendation – All general ledger accounts, including capital assets, should be reviewed monthly by the Council for adequacy and accuracy of classification of transactions.

Client Response – The City Council is aware the several journal entries were required during the audit. General ledger accounts will be reviewed monthly for accuracy of classification of transactions.

Current Status – The finding is repeated in the current year.

Federal Award Findings

2014-004 Separate Construction Bank Account

Condition – The City of Rolla did not establish a separate construction bank account as required for the USDA Water Main Improvement Project.

Criteria – A separate construction bank account is required by USDA.

Cause – The City was not aware of the requirement of needing a separate construction bank account.

Effect – Not complying with the agreements set forth in the USDA Water Main Improvement Project could constitute USDA not funding the program as the City is not complying with the requirements.

Recommendation – The City should go back and read the USDA Water Main Improvement Project requirements to ensure they are in compliance with the requirements for the project. The City should also establish a separate construction bank account for this project.

Client Response – The City has set up a separate fund in the accounting for the project. A separate bank account will be established for this project.

Current Status – A separate construction bank account was set up in the current year.

City of Rolla
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For the Year Ended December 31, 2015

2014-005 Activities Allowed or Unallowed

Condition – The City of Rolla obtained interim financing for their USDA Water Main Improvement Project and then transferred that interim financing to another fund to cover construction costs of a different project.

Criteria – Interim financing and other funds from USDA are to be used for the USDA approved project and are not to be used for other projects.

Cause – The City was not aware that the interim financing funds could not be used to cover expenditures on a different project.

Effect – The City could potentially claim expenditures not related to the approved project and the funds transferred and used on a different project may not be paid back to the USDA project. USDA could also cease funding on the project if the City is not following the requirements.

Recommendation – The City should ensure that the funds transferred to another project are repaid back to the USDA construction project.

Client Response – The need for funding was unexpected as the grant funds awarded to the City for a different project took longer than predicted to be disbursed to the City. The utilized interim financing was documented by City Council motions approving payment of construction costs of a different project and to be repaid to the USDA construction project.

Current Status – Interim financing was paid off in 2015 and they are currently using their federal funds for the appropriate projects.

2014-006 Segregation of Duties

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

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

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

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

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

City of Rolla
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Client Response – The City Council is aware of how inadequate segregation of duties could affect the City, but due to the limited resources it is not possible to hire additional staff to segregate duties.

Current Status – The finding is repeated in the current year.

2014-007 Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

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

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

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

Client Response – The City Council reviews the monthly and year-end financials prepared by the City’s auditors. Due to the size of the City and time constraints, the City Council has determined that the City’s auditors should continue to prepare the financial statements.

Current Status – The finding is repeated in the current year.