

CITY OF WASHBURN

AUDIT REPORT

December 31, 2015

CITY OF WASHBURN
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For The Year Ended December 31, 2015

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CITY OF WASHBURN

CITY OFFICIALS

December 31, 2015

Larry Thomas	President
Keith Jacobson	Vice President
DeWayne Moran	Commissioner
Kit Baumann	Commissioner
Noelle Kroll	Commissioner
Joan Zimmerman	City Auditor

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Washburn
Washburn, 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 Washburn, 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 financial position – modified cash basis 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 Washburn, North Dakota 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 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 Washburn's basic financial statements. The budgetary comparison information on pages 30 through 31, which is the responsibility of management, is presented for purposes of additional analysis and is 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 them.

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 Washburn, North Dakota'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.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, on our consideration of the City of Washburn'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 Washburn's internal control over financial reporting and compliance.



Mahlum Goodhart, PC
Mandan, North Dakota
December 30, 2016

CITY OF WASHBURN
Statement of Net Position - Modified Cash Basis
December 31, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Washburn Airport Authority	Washburn Library
ASSETS					
Current Assets					
Cash and Cash Equivalents	\$ 3,023,562	\$ 1,071,508	\$ 4,095,070	\$ 61,312	\$ 8,510
Investments	339,474	-	339,474	-	9,926
Due from Other Funds	-	9,800	9,800		
Capital Assets:					
Construction in Progress	4,150,569	455,768	4,606,337	167,725	-
Buildings and Infrastructure	7,226,079	10,261,336	17,487,415	1,088,702	-
Machinery and Equipment	568,745	66,674	635,419	108,954	-
Less: Accumulated Depreciation	<u>(2,274,048)</u>	<u>(2,133,132)</u>	<u>(4,407,180)</u>	<u>(239,970)</u>	<u>-</u>
Total Capital Assets	<u>9,671,345</u>	<u>8,650,646</u>	<u>18,321,991</u>	<u>1,125,411</u>	<u>-</u>
TOTAL ASSETS	13,034,381	9,731,954	22,766,335	1,186,723	18,436
LIABILITIES					
Current Liabilities:					
Payroll Withholdings Payable	6,466	-	6,466	-	-
Due to Other Funds	<u>9,800</u>	<u>-</u>	<u>9,800</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	16,266	-	16,266	-	-
Long-Term Liabilities:					
Portion Due or Payable within One Year					
Special Assessments Bond Payable	660,000	-	660,000	-	-
Lease Payable	32,585	-	32,585	-	-
Revenue Bonds Payable	-	195,000	195,000	-	-
Portion Due or Payable after One Year:					
Special Assessments Bond Payable	8,283,918	-	8,283,918	-	-
Lease Payable	33,820	-	33,820	-	-
Revenue Bonds Payable	<u>-</u>	<u>3,042,706</u>	<u>3,042,706</u>	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>9,010,323</u>	<u>3,237,706</u>	<u>12,248,029</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>9,026,589</u>	<u>3,237,706</u>	<u>12,264,295</u>	<u>-</u>	<u>-</u>
NET POSITION					
Net Investment in Capital Assets	661,022	5,412,940	6,073,962	1,125,411	-
Restricted for:					
Debt Service	172,676	-	172,676	-	-
Special Purposes	1,778,852	-	1,778,852	-	-
Unrestricted	<u>1,395,242</u>	<u>1,081,308</u>	<u>2,476,550</u>	<u>61,312</u>	<u>18,436</u>
TOTAL NET POSITION	<u>\$ 4,007,792</u>	<u>\$ 6,494,248</u>	<u>\$ 10,502,040</u>	<u>\$ 1,186,723</u>	<u>\$ 18,436</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2015

Functions/Programs	Net (Expense) Revenue & Changes in Net Position						Component Units		
	Program Revenues			Primary Government			Washburn	Washburn	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Airport Authority	Library	
Primary Government:									
<u>Governmental Activities</u>									
General Government	\$ 420,947	\$ 9,146	\$ -	\$ -	\$ (411,801)		\$ (411,801)		
Public Safety	167,484	6,777	-	-	(160,707)		(160,707)		
Streets and Public Works	288,700	-	116,578	-	(172,122)		(172,122)		
Culture and Recreation	24,972	-	-	-	(24,972)		(24,972)		
Interest on Long-Term Debt	211,442	-	-	-	(211,442)		(211,442)		
Bond Discount	-	-	-	-	-		-		
Other	29,838	-	-	-	(29,838)		(29,838)		
Total Governmental Activities	<u>1,143,383</u>	<u>15,923</u>	<u>116,578</u>	<u>-</u>	<u>(1,010,882)</u>		<u>(1,010,882)</u>		
<u>Business-type Activities</u>									
Water	534,218	499,322	-	-		\$ (34,896)	(34,896)		
Sewer	71,040	143,204	-	-		72,164	72,164		
Garbage	105,306	103,750	-	-		(1,556)	(1,556)		
Total Business-type Activities	<u>710,564</u>	<u>746,276</u>	<u>-</u>	<u>-</u>		<u>35,712</u>	<u>35,712</u>		
Total Primary Government	<u>\$ 1,853,947</u>	<u>\$ 762,199</u>	<u>\$ 116,578</u>	<u>\$ -</u>	<u>(1,010,882)</u>	<u>35,712</u>	<u>(975,170)</u>		
Component Units:									
Airport Authority	\$ 40,941	\$ -	\$ 161,229	\$ -			\$ 120,288	\$ -	
Library	2,622	-	7,695	-			-	5,073	
Total Component Units	<u>\$ 43,563</u>	<u>\$ -</u>	<u>\$ 168,924</u>	<u>\$ -</u>			<u>120,288</u>	<u>5,073</u>	
General Revenues:									
Taxes:									
Property Taxes, Levied for General Purpose					138,541	-	138,541	19,100	-
Property Taxes, Levied for Special Reserve					536,138	-	536,138	-	-
Sales Tax					315,553	-	315,553	-	-
Special Assessments					144,362	-	144,362	-	-
Cigarette Taxes					4,044	-	4,044	-	-
Oil and Gas Production Taxes					42,653	-	42,653	-	-
Coal Severance and Conversion Taxes					200,153	-	200,153	-	-
Intergovernmental Revenue, Unrestricted					703,748	-	703,748	-	-
Earnings on Investments and Other Revenue					82,766	1,464	84,230	20,241	492
Total General Revenues					<u>2,167,958</u>	<u>1,464</u>	<u>2,169,422</u>	<u>39,341</u>	<u>492</u>
Change in Net Position					1,157,076	37,176	1,194,252	159,629	5,565
Net Position - Beginning of Year					<u>2,850,716</u>	<u>6,457,072</u>	<u>9,307,788</u>	<u>1,027,094</u>	<u>12,871</u>
Net Position - End of Year					<u>\$ 4,007,792</u>	<u>\$ 6,494,248</u>	<u>\$ 10,502,040</u>	<u>\$ 1,186,723</u>	<u>\$ 18,436</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2015

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Projects	Sales Tax		
ASSETS					
Cash and Cash Equivalents	\$ 1,410,279	\$ 813,502	\$ 502,701	\$ 297,080	\$ 3,023,562
Investments	339,474	-	-	-	339,474
Due from Other Funds	<u>2,694</u>	<u>-</u>	<u>-</u>	<u>29,553</u>	<u>32,247</u>
TOTAL ASSETS	<u>\$ 1,752,447</u>	<u>\$ 813,502</u>	<u>\$ 502,701</u>	<u>\$ 326,633</u>	<u>\$ 3,395,283</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Benefits Payable	\$ 6,466	\$ -	\$ -	\$ -	\$ 6,466
Due to Other Funds	<u>7,687</u>	<u>-</u>	<u>-</u>	<u>34,360</u>	<u>42,047</u>
Total Liabilities	<u>14,153</u>	<u>-</u>	<u>-</u>	<u>34,360</u>	<u>48,513</u>
FUND BALANCES					
Fund Balances:					
Restricted for:					
Debt Service	-	-	-	172,676	172,676
Highway	-	-	-	125,561	125,561
Assigned	-	813,502	502,701	337,088	1,653,291
Unassigned	<u>1,738,294</u>	<u>-</u>	<u>-</u>	<u>(343,052)</u>	<u>1,395,242</u>
Total Fund Balances	<u>1,738,294</u>	<u>813,502</u>	<u>502,701</u>	<u>292,273</u>	<u>3,346,770</u>
TOTAL FUND BALANCES	<u>\$ 1,752,447</u>	<u>\$ 813,502</u>	<u>\$ 502,701</u>	<u>\$ 326,633</u>	<u>\$ 3,395,283</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
 Reconciliation of Governmental Funds Balance Sheet
 to the Statement of Net Position - Modified Cash Basis
 For the year ended December 31, 2015

Total Fund Balance for Governmental Funds	\$ 3,346,770
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Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	\$ 11,945,393	
Less Accumulated Depreciation	<u>(2,274,048)</u>	
Net Capital Assets		9,671,345

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities, both current and long-term, are reported in the statement of net position. Balances at December 31, 2015 are:

Lease Payable		(66,405)
Special Assessment Bonds Payable		<u>(8,943,918)</u>

Total Net Position of Governmental Activities	\$ <u>4,007,792</u>
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CITY OF WASHBURN
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Fund
For the year ended December 31, 2015

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Projects	Sales Tax		
REVENUES					
Property Taxes	\$ 138,541	\$ -	\$ -	\$ 536,138	\$ 674,679
Sales Tax	-	-	315,553	-	315,553
Special Assessments	824	-	-	143,538	144,362
Licenses, Permits, and Fees	9,146	-	-	-	9,146
Intergovernmental	950,598	-	-	116,578	1,067,176
Fines and Forfeits	6,777	-	-	-	6,777
Interest Income	10,687	-	1,711	1	12,399
Miscellaneous	66,534	-	-	3,833	70,367
TOTAL REVENUES	1,183,107	-	317,264	800,088	2,300,459
EXPENDITURES					
Current:					
General Government	349,107	-	-	67,240	416,347
Public Safety	167,484	-	-	-	167,484
Streets and Public Works	-	2,420,278	-	93,118	2,513,396
Culture and Recreation	21,632	-	-	-	21,632
Other	24,245	-	-	5,593	29,838
Debt Service:					
Principal	-	-	-	652,035	652,035
Interest and Service Charges	-	-	-	211,442	211,442
TOTAL EXPENDITURES	562,468	2,420,278	-	1,029,428	4,012,174
Excess (Deficiency) of Revenues Over (Under) Expenditures	620,639	(2,420,278)	317,264	(229,340)	(1,711,715)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	303,333	-	61,000	364,333
Transfers Out	(9,499)	-	(354,834)	-	(364,333)
Bond Proceeds	-	2,612,589	-	-	2,612,589
Total Other Financing Sources (Uses)	(9,499)	2,915,922	(354,834)	61,000	2,612,589
NET CHANGE IN FUND BALANCES	611,140	495,644	(37,570)	(168,340)	900,874
Fund Balances - January 1, 2015	1,127,154	317,858	540,271	460,613	2,445,896
FUND BALANCES - DECEMBER 31, 2015	\$ 1,738,294	\$ 813,502	\$ 502,701	\$ 292,273	\$ 3,346,770

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN

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

Net Change in Fund Balances - Total Governmental Funds \$ 900,874

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 capital outlay exceeded depreciation in the current year.

Current Year Capital Outlay	\$ 2,488,117	
Current Year Depreciation Expense	<u>(271,361)</u>	2,216,756

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

Debt Proceeds	(2,612,589)	
Repayment of Debt	<u>652,035</u>	

Change in net position of governmental activities \$ 1,157,076

CITY OF WASHBURN

Statement of Net Position - Modified Cash Basis - Proprietary Funds

December 31, 2015

	Major Enterprise Funds			Total Enterprise Funds
	Water	Sewer	Garbage	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 595,630	\$ 413,031	\$ 62,847	\$ 1,071,508
Due from Other Funds	<u>9,800</u>	<u>-</u>	<u>-</u>	<u>9,800</u>
Total Current Assets	605,430	413,031	62,847	1,081,308
Noncurrent Assets:				
Capital Assets				
Construction in Progress	455,768	-	-	455,768
Buildings and Infrastructure	10,261,336	-	-	10,261,336
Machinery and Equipment	66,674	-	-	66,674
Less: Accumulated Depreciation	<u>(2,133,132)</u>	<u>-</u>	<u>-</u>	<u>(2,133,132)</u>
Total Noncurrent Assets	<u>8,650,646</u>	<u>-</u>	<u>-</u>	<u>8,650,646</u>
TOTAL ASSETS	9,256,076	413,031	62,847	9,731,954
LIABILITIES				
Current Liabilities:				
Revenue Bonds Payable	195,000	-	-	195,000
Noncurrent Liabilities				
Revenue Bonds Payable	<u>3,042,706</u>	<u>-</u>	<u>-</u>	<u>3,042,706</u>
TOTAL LIABILITIES	<u>3,237,706</u>	<u>-</u>	<u>-</u>	<u>3,237,706</u>
NET POSITION				
Net Investment in Capital Assets	5,412,940	-	-	5,412,940
Unrestricted	<u>605,430</u>	<u>413,031</u>	<u>62,847</u>	<u>1,081,308</u>
TOTAL NET POSITION	<u>\$ 6,018,370</u>	<u>\$ 413,031</u>	<u>\$ 62,847</u>	<u>\$ 6,494,248</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN

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			
	Water	Sewer	Garbage	Total
OPERATING REVENUES:				
Charges for Sales and Services:				
Water Charges	\$ 495,172	\$ -	\$ -	\$ 495,172
Sewer Charges	-	143,204	-	143,204
Garbage Collection Charges	-	-	103,706	103,706
Miscellaneous Charges	4,150	-	44	4,194
TOTAL OPERATING REVENUES	499,322	143,204	103,750	746,276
OPERATING EXPENSES:				
Salaries	73,761	44,835	-	118,596
Health Insurance	19,040	5,155	-	24,195
Utilities	22,821	1,885	-	24,706
Supplies, Maintenance and Repairs	97,541	9,378	-	106,919
Machinery & Equipment	-	9,787	-	9,787
Contracted Services	-	-	100,805	100,805
Other	5,035	-	4,501	9,536
Depreciation	247,817	-	-	247,817
TOTAL OPERATING EXPENSES	466,015	71,040	105,306	642,361
INCOME (LOSS) FROM OPERATIONS	33,307	72,164	(1,556)	103,915
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	1,464	-	-	1,464
Debt Service - Interest and Service Charges	(68,203)	-	-	(68,203)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(66,739)	-	-	(66,739)
INCOME (LOSS) BEFORE TRANSFERS	(33,432)	72,164	(1,556)	37,176
Transfers In (Out)	26,934	(26,934)	-	-
CHANGE IN NET POSITION	(6,498)	45,230	(1,556)	37,176
Net Position - January 1, 2015	6,024,868	367,801	64,403	6,457,072
NET POSITION - DECEMBER 31, 2015	\$ 6,018,370	\$ 413,031	\$ 62,847	\$ 6,494,248

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2015

	<u>Major Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Total</u>
<u>Cash Flows from Operating Activities:</u>				
Receipts from Customers	\$ 499,322	\$ 143,204	\$ 103,750	\$ 746,276
Payments to Employees	(92,801)	(49,990)	-	(142,791)
Payments to Suppliers	<u>(125,397)</u>	<u>(21,050)</u>	<u>(105,306)</u>	<u>(251,753)</u>
Net Cash Provided (Used) by Operating Activities	281,124	72,164	(1,556)	351,732
<u>Cash flows from Noncapital Financing Activities:</u>				
Transfers In (Out)	26,934	(26,934)	-	-
Loan to Other Funds	<u>(9,800)</u>	<u>-</u>	<u>-</u>	<u>(9,800)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	17,134	(26,934)	-	(9,800)
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Bond Proceeds	46,039	-	-	46,039
Purchases and Construction of Capital Assets	(127,843)	-	-	(127,843)
Principal Payments	(223,000)	-	-	(223,000)
Interest Payments and Service Charges	<u>(68,203)</u>	<u>-</u>	<u>-</u>	<u>(68,203)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	(373,007)	-	-	(373,007)
<u>Cash Flows from Investing Activities:</u>				
Interest Income	<u>1,464</u>	<u>-</u>	<u>-</u>	<u>1,464</u>
Net Cash Provided (Used) by Investing Activities	<u>1,464</u>	<u>-</u>	<u>-</u>	<u>1,464</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(73,285)	45,230	(1,556)	(29,611)
Cash and Cash Equivalents, January 1, 2015	<u>668,915</u>	<u>367,801</u>	<u>64,403</u>	<u>1,101,119</u>
Cash and Cash Equivalents, December 31, 2015	<u>\$ 595,630</u>	<u>\$ 413,031</u>	<u>\$ 62,847</u>	<u>\$ 1,071,508</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>				
Income (Loss) from Operations	\$ 33,307	\$ 72,164	\$ (1,556)	\$ 103,915
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	<u>247,817</u>	<u>-</u>	<u>-</u>	<u>247,817</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 281,124</u>	<u>\$ 72,164</u>	<u>\$ (1,556)</u>	<u>\$ 351,732</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
Statement of Fiduciary Assets and Liabilities
Modified Cash Basis
December 31, 2015

	<u>Agency Funds</u>
ASSETS	
Due from Other Governments	\$ <u>10,624</u>
 Total Assets	 \$ <u>10,624</u>
 LIABILITIES	
Cash Deficit	\$ <u>10,624</u>
 Total Liabilities	 \$ <u>10,624</u>

The accompanying notes are an integral part of this statement.

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Washburn operates under a city commission form of government. 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 (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. 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 Washburn Airport Authority's governing board is appointed by the City's governing board. The City's governing body has the authority to disapprove, amend, or approve the Airport Authority budget. The Airport Authority has the authority to issue its own debt.

The Washburn Public Library's governing board is appointed by the City's governing board. The City's governing body has the authority disapprove, amend, or approve the library budget. The library has the authority to issue its own debt.

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

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

Projects Fund: This fund accounts for the activity of the City's current projects within the City.

Sales Tax Fund: This fund accounts for the activity of the City's sales tax collections which are used for various purposes.

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 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:

Water Fund: This fund accounts for the activities of the City's water distribution system, wastewater improvements project, water tower rehabilitation project, and street and utility improvements construction project.

Sewer Fund: This fund accounts for the activities of the City's sewer collection system.

Garbage Fund: This fund accounts for the activities of the City's garbage collection system.

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or 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, fiduciary fund, 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.

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

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

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.

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

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

The bank balances of all City funds (including the component units and agency funds) at December 31, 2015, were \$4,506,257; the carrying balances at this date were \$4,503,668. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$4,256,257 was collateralized with securities held by the pledging financial institutions' agent but not in the City's name. During the year, the board did review the pledge 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.

E. Capital Assets

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

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Building and Infrastructure	20 to 75 years
Machinery and Vehicles	10 to 20 years

F. Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide statement of net position as it is considered immaterial.

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.

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. 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.

I. 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.

J. Fund Balance Classifications

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

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

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

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city commission – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the city commission 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 commission 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.

K. 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.

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 0.40 – 2.00 percent in 2015. At December 31, 2015 the City and component units held certificates of deposit in the amount of \$349,400.

NOTE 3 PROPERTY TAXES

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

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

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

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 4 CAPITAL ASSETS

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

	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 1,662,452	\$ 2,488,117	\$ -	\$ 4,150,569
Capital Assets Being Depreciated:				
Buildings and Infrastructure	7,226,079	-	-	7,226,079
Machinery and Vehicles	568,745	-	-	568,745
Total	<u>7,794,824</u>	<u>-</u>	<u>-</u>	<u>7,794,824</u>
Less Accumulated Depreciation for:				
Buildings and Infrastructure	1,762,884	242,645	-	2,005,529
Machinery and Vehicles	239,803	28,716	-	268,519
Total	<u>2,002,687</u>	<u>271,361</u>	<u>-</u>	<u>2,274,048</u>
Total Capital Assets Being Depreciated, Net	<u>5,792,137</u>	<u>(271,361)</u>	<u>-</u>	<u>5,520,776</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,454,589</u>	<u>\$ 2,216,756</u>	<u>\$ -</u>	<u>\$ 9,671,345</u>
	<u>Balance</u> <u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31</u>
Business-type Activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 333,808	\$ 121,960	\$ -	\$ 455,768
Capital Assets Being Depreciated:				
Buildings and Infrastructure	10,255,453	5,883	-	10,261,336
Machinery and Vehicles	66,674	-	-	66,674
Total	<u>10,322,127</u>	<u>5,883</u>	<u>-</u>	<u>10,328,010</u>
Less Accumulated Depreciation for:				
Buildings and Infrastructure	1,856,716	241,753	-	2,098,469
Machinery and Vehicles	28,599	6,064	-	34,663
Total	<u>1,885,315</u>	<u>247,817</u>	<u>-</u>	<u>2,133,132</u>
Total Capital Assets Being Depreciated, Net	<u>8,436,812</u>	<u>(241,934)</u>	<u>-</u>	<u>8,194,878</u>
Business-type Activities Capital Assets, Net	<u>\$ 8,770,620</u>	<u>\$ (119,974)</u>	<u>\$ -</u>	<u>\$ 8,650,646</u>

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 4 CAPITAL ASSETS – CONTINUED

	Balance January 1	Increases	Decreases	Balance December 31
Discretely Presented Component Unit:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ 167,725	\$ -	\$ 167,725
Capital Assets Being Depreciated:				
Buildings and Infrastructure	\$ 1,088,702	\$ -	\$ -	\$ 1,088,702
Machinery and Vehicles	100,000	8,954	-	108,954
Total	1,188,702	8,954	-	1,197,656
Less Accumulated Depreciation for:				
Buildings and Infrastructure	163,032	26,689	-	189,721
Machinery and Vehicles	45,000	5,249	-	50,249
Total	208,032	31,938	-	239,970
Total Capital Assets Being Depreciated, Net	980,670	(22,984)	-	957,686
Discretely Presented Component Unit Capital Assets, Net				
	\$ 980,670	\$ 144,741	\$ -	\$ 1,125,411

Depreciation expense was charged to functions/programs of the City and component unit as follows for the year ended December 31, 2015:

<u>Governmental Activities:</u>	
General Government	\$ 4,600
Streets and Public Works	263,421
Culture and Recreation	3,340
Total	\$ 271,361
<u>Business-type Activities:</u>	
Water	\$ 247,817
<u>Discretely Presented Component Unit:</u>	
Airport	\$ 31,938

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 5 LONG-TERM DEBT

During the year ended December 31, 2015, the following changes occurred in liabilities reported in the long-term liabilities:

Governmental Activities	Balance			Balance December 31	Due Within One Year
	January 1	Increases	Decreases		
Special Assessment Bonds	\$ 6,951,969	\$ 2,612,589	\$ 620,640	\$ 8,943,918	\$ 660,000
Lease Payable	97,800	-	31,395	66,405	32,585
Total	\$ 7,049,769	\$ 2,612,589	\$ 652,035	\$ 9,010,323	\$ 692,585

Business-type Activities	Balance			Balance December 31	Due Within One Year
	January 1	Increases	Decreases		
Revenue Bonds Payable	\$ 3,414,667	\$ 46,039	\$ 223,000	\$ 3,237,706	\$ 195,000

Outstanding debt at December 31, 2015 consists of the following:

Governmental Activities:

Special Assessment Debt. The City has issued special assessment bonds to provide funds for the construction and or improvement of streets, water and sewer systems.

Elgin Pelican Sweeper Lease. The City has entered into a capital lease with Kinetic Leasing to purchase an Elgin Pelican Sweeper.

Special assessment bonds and Elgin Pelican Sweeper Lease outstanding at December 31, 2015, are as follows:

\$285,000 Refunding Improvement Bonds of 2006, due in annual installments of \$25,000 to \$30,000 through May 1, 2016; interest is at 4.25%.	\$ 25,000
\$255,000 Refunding Improvement Bonds of 2007, due in annual installments of \$15,000 to \$20,000 through May 1, 2022; interest is at 4.0% to 4.5%.	105,000
\$380,000 Refunding Improvement Bonds of 2008, due in annual installments of \$15,000 to \$30,000 through May 1, 2023; interest is at 3.0% to 4.6%.	185,000
\$2,145,000 Refunding Improvement Bonds of 2009, due in annual installments of \$125,000 to \$185,000 through May 1, 2029; interest is at 1.6% to 4.5%.	1,285,000
\$3,695,000 Refunding Improvement Bonds of 2013; due in annual installments of \$235,000 to \$285,000 through May 1, 2028; interest is at 0.85% to 4.5%.	3,445,000

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 5 LONG-TERM DEBT – CONTINUED

\$1,061,610 Drinking Water State Revolving Fund Loan; due in annual installments of \$36,640 to \$75,000 through September 1, 2034; interest is at 2.0%.	954,623
\$2,584,000 Clean Water State Revolving Fund Loan; due in annual installments of \$99,000 to \$160,000 through September 1, 2034; interest is at 2.0%.	2,249,295
\$695,000 Refunding Improvement Bonds of 2015; due in annual installments of \$35,000 to \$45,000 through May 1, 2035; interest is at 2.0% to 4.0%.	<u>695,000</u>
Total Special Assessment Debt	8,943,918
\$162,610 Elgin Pelican Sweeper Lease, due in annual installments of \$35,102 through January 1, 2017; interest is at 4.0%.	<u>66,405</u>
Total Long-Term Debt	<u><u>\$ 9,010,323</u></u>

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

Year Ending December 31	Principal	Interest	Total
2016	\$ 692,585	\$ 237,808	\$ 930,393
2017	704,183	231,832	936,015
2018	670,000	215,286	885,286
2019	660,000	198,866	858,866
2020	655,000	181,332	836,332
2021-2025	2,945,000	620,432	3,565,432
2026-2030	1,750,000	239,400	1,989,400
2031-2035	933,555	72,188	1,005,743
Total	<u><u>\$ 9,010,323</u></u>	<u><u>\$ 1,997,144</u></u>	<u><u>\$ 11,007,467</u></u>

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 5 LONG-TERM DEBT – CONTINUED

Business-type Activities (Proprietary Funds):

Revenue Bonds. The City has issued bonds where by the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at December 31, 2015, are as follows:

The City received funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The City did a water system upgrade construction project and issued the Water Treatment Plant Construction Revenue Bonds of 2006 in the amount of \$1,977,000, due in annual installments through September 1, 2025 with an interest rate at 2.5%. \$ 1,090,000

The City received funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The City did a water tower restoration project and issued bonds in the amount of \$378,000, due in annual installments of \$13,000 to \$35,000 through September 1, 2034 with an interest rate at 2.0%. 363,395

The City received funding as part of the Clean Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The City is in the process of a waste water treatment plant improvement construction project and issued bonds in the amount of \$500,000, due in annual installments of \$20,000 to \$30,000 through September 1, 2034 with an interest rate at 2.0%. 359,311

The City received funding as part of the Drinking Water State Revolving Fund Program, from the North Dakota Public Finance Authority. The City did a water system upgrade construction project and issued the Water Treatment Plant Improvement Revenue Bonds of 2010 in the amount of \$4,023,646. The balance is due in annual installments through September 1, 2029 with an interest rate at 0.5%. 1,425,000

Total Revenue Bonds \$ 3,237,706

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 5 LONG-TERM DEBT - CONTINUED

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

Year Ending December 31	Principal	Interest	Total
2016	\$ 225,000	\$ 49,043	\$ 274,043
2017	226,629	47,357	273,986
2018	235,000	43,750	278,750
2019	240,000	40,050	280,050
2020	245,000	36,225	281,225
2021-2025	1,285,000	120,375	1,405,375
2026-2030	645,000	42,725	687,725
2031-2035	136,077	9,700	145,777
Total	<u>\$ 3,237,706</u>	<u>\$ 389,225</u>	<u>\$ 3,626,931</u>

NOTE 6 TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2015:

	Transfer In	Transfer Out	
Governmental Funds			
General Fund	\$ -	\$ 9,499	<i>Lodging Tax; Special Assessments</i>
Sales Tax Fund	-	354,834	<i>For Various City Projects</i>
Lodging Tax Fund	1,000	-	<i>To open Lodging tax Fund</i>
Project Fund	303,333	-	<i>For Various City Projects</i>
Water Fund	26,934	-	<i>To make loan payment</i>
Sewer Fund	-	26,934	<i>To make loan payment</i>
Special Assessment Fund	20,000	-	<i>To pay Special Assessments</i>
Sidewalk Fund	40,000	-	<i>For Various City Projects</i>
	<u>\$ 391,267</u>	<u>\$ 391,267</u>	

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 7 DEFICIT FUND BALANCES

The following funds had a deficit balance as of December 31, 2015:

<u>Governmental Funds</u>	
Advertising	\$ (13,565)
 <u>Debt Service Funds</u>	
Refunding Improvement Bonds of 2006	\$ (120,613)
Refunding Improvement Bonds of 2008	(1,912)
2013-01 SSID	(8,381)
2013-02 SSID	(7,772)
2013-01 WID	(11,930)
2013-03 SID – Truck Route	(11,099)
2014 Water Tower Rehab	(45,978)
2014 Wastewater Treatment	(121,802)

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

NOTE 8 RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDIRF for its general liability, automobile and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 per occurrence for general liability and automobile; and \$1,648,566 for public assets.

The City also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of \$2,000,000 per occurrence during a 12 month period. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$250,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

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

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

NOTE 9 PENSION PLAN

The City’s employees are provided retirement benefits under a defined contribution money purchase plan with John Hancock Life Insurance Company and American Funds. The City is only responsible for current contributions. All full time employees of the City are provided similar benefits. The employer contributes 6.12% of eligible compensation. The employer portion paid was \$14,195 for the year ending December 31, 2015.

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 10 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2015.

For the year ended December 31, 2015, the General Fund expended certain line items over budget, but overall the General Fund total expenditures were less than budgeted. The Projects Fund and Sales Tax Fund did not prepare a budget. No remedial action is anticipated or required by the City regarding these excess expenditures.

NOTE 11 INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2015, interfund receivables and payables totaled \$42,047 to move property taxes and expenses paid to the correct fund. Below is a summary of the interfund receivables and payables.

	Due From Other Funds	Due To Other Funds
Governmental Funds		
General Fund	\$ 2,694	\$ 7,687
Refunding Improvement Bonds of 2009	22,458	-
Social Security	427	-
Special Assessments	51	-
Advertising	30	-
Snow Removal	26	-
Forestry	41	-
Retirement	105	-
Insurance Reserve	103	-
Refunding Improvement Bonds of 2007	5,812	-
Refunding Improvement Bonds of 2008	500	-
Refunding Improvement Bonds of 2006	-	19,389
2014 Street & Utility-Drinking Water	-	8,438
2014 Street & Utility-Clean Water	-	6,533
Proprietary Funds		
Water Funds	9,800	-
	<u>\$ 42,047</u>	<u>\$ 42,047</u>

NOTE 12 RELATED PARTY TRANSACTIONS

Kim Zimmerman, husband of Joan Zimmerman, City Auditor, works for the City as a maintenance man.

Adam Thomas works as a maintenance man for the City. His father, Larry Thomas is President of the city commission.

CITY OF WASHBURN
Notes to the Financial Statements
December 31, 2015

NOTE 13 FUND BALANCES

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

	General Fund	Projects	Sales Tax	Other Governmental Funds	Total
Restricted					
Refunding Improvement Bonds of 2009	\$ -	\$ -	\$ -	\$ 116,263	\$ 116,263
Refunding Improvement Bonds of 2007	-	-	-	6,388	6,388
2013-01 SID - Pavement	-	-	-	39,303	39,303
2013-02 SID - Seal Coat	-	-	-	10,722	10,722
Highway	-	-	-	125,561	125,561
Assigned					
Projects	-	813,502	-	-	813,502
Sales Tax	-	-	502,701	-	502,701
Insurance Reserve	-	-	-	4,656	4,656
Social Security	-	-	-	66,604	66,604
Special Assessments	-	-	-	164,387	164,387
Snow Removal	-	-	-	30,253	30,253
Forestry	-	-	-	4,900	4,900
Lodging Tax	-	-	-	1,017	1,017
Sidewalk Fund	-	-	-	40,000	40,000
Special Assessments Assistance	-	-	-	11,489	11,489
Retirement	-	-	-	13,782	13,782
Unassigned, Reported in					
General	1,738,294	-	-	-	1,738,294
Advertising	-	-	-	(13,565)	(13,565)
Refunding Improvement Bonds of 2006	-	-	-	(120,613)	(120,613)
Refunding Improvement Bonds of 2008	-	-	-	(1,912)	(1,912)
2013-01 WID	-	-	-	(11,930)	(11,930)
2013-01 SSID	-	-	-	(8,381)	(8,381)
2013-02 SSID	-	-	-	(7,772)	(7,772)
2013-03 SID - Truck Route	-	-	-	(11,099)	(11,099)
2014 Water Tower Rehab	-	-	-	(45,978)	(45,978)
2014-Wastewater Treatments	-	-	-	(121,802)	(121,802)
	<u>\$ 1,738,294</u>	<u>\$ 813,502</u>	<u>\$ 502,701</u>	<u>\$ 292,273</u>	<u>\$ 3,346,770</u>

SUPPLEMENTARY INFORMATION

CITY OF WASHBURN
 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>	Actual (Budgetary Basis)	
REVENUES				
Property Taxes	\$ 141,816	\$ 141,816	\$ 138,541	\$ (3,275)
Special Assessments	2,500	2,500	824	(1,676)
Licenses, Permits, and Fees	12,750	12,750	9,146	(3,604)
Intergovernmental	404,000	404,000	950,598	546,598
Fines and Forfeits	25,000	25,000	6,777	(18,223)
Interest Income	3,500	3,500	10,687	7,187
Miscellaneous	<u>34,000</u>	<u>34,000</u>	<u>66,534</u>	<u>32,534</u>
TOTAL REVENUES	623,566	623,566	1,183,107	559,541
EXPENDITURES				
Current:				
General Government	305,235	305,235	349,107	(43,872)
Public Safety	164,023	164,023	167,484	(3,461)
Culture and Recreation	39,500	39,500	21,632	17,868
Other	<u>14,250</u>	<u>14,250</u>	<u>24,245</u>	<u>(9,995)</u>
TOTAL EXPENDITURES	<u>523,008</u>	<u>523,008</u>	<u>562,468</u>	<u>(39,460)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	100,558	100,558	620,639	520,081
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(9,499)</u>	<u>(9,499)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(9,499)</u>	<u>(9,499)</u>
NET CHANGE IN FUND BALANCES	100,558	100,558	611,140	510,582
Fund Balances - January 1, 2015	<u>1,127,154</u>	<u>1,127,154</u>	<u>1,127,154</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2015	<u>\$ 1,227,712</u>	<u>\$ 1,227,712</u>	<u>\$ 1,738,294</u>	<u>\$ 510,582</u>

The accompanying notes are an integral part of this statement.

City of Washburn
Notes to 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 presents the adopted and final amended budgeted revenues and expenditures for these funds. The City did not adopt a budget for the Projects capital projects fund and Sales Tax special revenue fund for the year ended December 31, 2015.

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 WASHBURN
Schedule of Expenditures of Federal Awards
For The Year Ended December 31, 2015

Pass Through Number	Federal Domestic Assistance Number	Program Title	Federal Expenditures
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Environmental Protection Agency

Passed through North Dakota Public Finance Authority

N/A	66.458	Capitalization Grants for Clean Water State Revolving Funds	\$ 1,484,978
N/A	66.468	Capitalization Grants for Drinking Water State Revolving Funds	430,078

U.S Department of Transportation

Passed through Federal Aviation Administration

N/A	20.106	Airport Improvement Program *	<u>151,444</u>
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TOTAL FEDERAL GRANT EXPENDITURES	<u><u>\$ 2,066,500</u></u>
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* Note: The airport is a discretely presented component unit of the City of Washburn.

CITY OF WASHBURN
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended 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. City of Washburn 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 Washburn
Washburn, 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 Washburn, 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 Washburn, North Dakota's basic financial statements and have issued our report thereon dated December 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Washburn'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 Washburn's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Washburn'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 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 the 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 Washburn'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.

City of Washburn, North Dakota's Response to Findings

City of Washburn, North Dakota's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Washburn'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
December 30, 2016

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 Washburn
Washburn, North Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Washburn'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 Washburn's major federal programs for the year ended December 31, 2015. City of Washburn'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 Washburn'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 Washburn'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 Washburn's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Washburn 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.

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

Report on Internal Control over Compliance

Management of the City of Washburn 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 Washburn'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 Washburn'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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-004 through 2015-006, that we consider to be material weaknesses.

The City of Washburn's responses 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 Washburn's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Mahlum Goodhart, PC
Mandan, North Dakota
December 30, 2016

CITY OF WASHBURN
 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
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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
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Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	No
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Identification of major federal programs:

66.458	Capitalization Grants for Clean Water State Revolving Funds
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Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as a low-risk auditee?	No
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CITY OF WASHBURN
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Section II - Financial Statement Findings

Material Weaknesses

Finding 2015-001: Segregation of Duties

Condition – The City has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

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 – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board 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 board's knowledge of matters relating to the organization's operations.

Management's Response – The Washburn City Commission and Staff are aware of the restrictions of the staff and the limit to segregation of duties, at this time and the size of the City it is not practicable to employ more staff to eliminate this issue. Monthly bills are reviewed by the Commissioner with the financial portfolio. Commission members review monthly financial statements.

Finding 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 *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation.

Effect – The current financial statements completed by the City are not complete or in conformity with *Governmental Accounting Standards Board* statements. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to be made.

Recommendation – The City staff should acquire knowledge of current accounting principles and required financial statement disclosures and review the Financial Statements and disclosures prepared by the auditors.

Management's Response – It is not cost effective for the City to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements.

CITY OF WASHBURN
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Finding 2015-003: Journal Entries, Capital Assets, and Debt Activity Records

Condition – Several journal entries were required to be made during the audit to present accurate financial statements, including the capital assets and debt activity.

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 the modified cash basis of accounting.

Cause – The adjustments for accurate financial statements, including capital assets and debt activity are not completed by the city auditor.

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

Recommendation – We recommend that management make the necessary journal entries including for capital assets and debt activity or maintain summary schedules which will provide the information needed for these entries to the auditor. All general ledger accounts should be reviewed by City staff for accuracy.

Management's Response – The staff will make every attempt to create and maintain summary schedules for the capital assets and debt activity for the City of Washburn.

Section III – Federal Award Findings and Questioned Costs

Finding 2015-004: Segregation of Duties

Condition – The City has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

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 – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board 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 board's knowledge of matters relating to the organization's operations.

Management's Response – The Washburn City Commission and Staff are aware of the restrictions of the staff and the limit to segregation of duties, at this time and the size of the City it is not practicable to employ more staff to eliminate this issue. Monthly bills are reviewed by the Commissioner with the financial portfolio. Commission members review monthly financial statements.

CITY OF WASHBURN
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Finding 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 *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation.

Effect – The current financial statements completed by the City are not complete or in conformity with *Governmental Accounting Standards Board* statements. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to be made.

Recommendation – The City staff should acquire knowledge of current accounting principles and required financial statement disclosures and review the Financial Statements and disclosures prepared by the auditors.

Management’s Response – It is not cost effective for the City to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements.

Finding 2015-006: Journal Entries, Capital Assets, and Debt Activity Records

Condition – Several journal entries were required to be made during the audit to present accurate financial statements, including the capital assets and debt activity.

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 the modified cash basis of accounting.

Cause – The adjustments for accurate financial statements, including capital assets and debt activity are not completed by the city auditor.

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

Recommendation – We recommend that management make the necessary journal entries including for capital assets and debt activity or maintain summary schedules which will provide the information needed for these entries to the auditor.

Management’s Response – The staff will make every attempt to create and maintain summary schedules for the capital assets and debt activity for the City of Washburn.

CITY OF WASHBURN
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Section IV – Prior Audit Findings

Material Weaknesses

Finding 2014-001: Segregation of Duties

Condition – The City has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

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 – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board 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 board's knowledge of matters relating to the organization's operations.

Management's Response – The Washburn City Commission and Staff are aware of the restrictions of the staff and the limit to segregation of duties, at this time and the size of the City it is not practicable to employ more staff to eliminate this issue. Monthly bills are reviewed by the Commissioner with the financial portfolio. Commission members review monthly financial statements.

Status of Finding – The finding is repeated in the current year. See 2015-001.

Finding 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 *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation.

Effect – The current financial statements completed by the City are not complete or in conformity with *Governmental Accounting Standards Board* statements. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to be made.

Recommendation – The City should acquire knowledge of current accounting principles and required financial statement disclosures and prepare monthly and annual financial statements in conformity with *Governmental Accounting Standards Board* statements.

CITY OF WASHBURN
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2015

Management's Response – It is not cost effective for the City to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements.

Status of Finding – The finding is repeated in the current year. See 2015-002.

Finding 2014-003: Journal Entries, Capital Assets, and Debt Activity Records

Condition – Several journal entries were required to be made during the audit to present accurate financial statements, including the capital assets and debt activity.

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 the modified cash basis of accounting.

Cause – The adjustments for accurate financial statements, including capital assets and debt activity are not completed by the city auditor.

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

Recommendation – We recommend that management make the necessary journal entries including for capital assets and debt activity or maintain summary schedules which will provide the information needed for these entries to the auditor.

Management's Response – The staff will make every attempt to create and maintain summary schedules for the capital assets and debt activity for the City of Washburn.

Status of Finding – The finding is repeated in the current year. See 2015-003.

Noncompliance

Finding 2014-004: Pledged Securities

Condition – The City Commission reviewed their pledges of securities only once during the year.

Criteria – North Dakota Century Code states pledges of securities should be reviewed by the City Commission semi-annually.

Cause – Pledges of securities were not reviewed by the City Commission semi-annually.

Effect – The City Commission was not aware of the requirement and therefore, pledges of securities were not reviewed by the City Commission semi-annually.

Recommendation – We recommend that the City Auditor and City Commission review their pledges securities in comparison with their cash balances twice per year to insure compliance with the North Dakota Century Code.

Management's Response – We will make sure that the City Commission approves the pledges of securities semi-annually as required by state law.

Status of Finding – The City Commission approved pledges semi-annually as required by state law.

CITY OF WASHBURN
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Finding 2014-005: Segregation of Duties

Condition – The City has a lack of segregation of duties in certain areas due to a limited number of individuals involved.

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 – Limited staff is available for accounting functions.

Effect – There is a lack of separation of duties as a limited number of individuals are responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and prepare financial statements.

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the board 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 board's knowledge of matters relating to the organization's operations.

Management's Response – The Washburn City Commission and Staff are aware of the restrictions of the staff and the limit to segregation of duties, at this time and the size of the City it is not practicable to employ more staff to eliminate this issue. Monthly bills are reviewed by the Commissioner with the financial portfolio. Commission members review monthly financial statements.

Status of Finding – The finding is repeated in the current year. See 2015-004.

Finding 2014-006: 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 *Governmental Accounting Standards Board* statements is required.

Cause – The internal accounting system does not have the ability to convert the fund statements to the government-wide presentation.

Effect – The current financial statements completed by the City are not complete or in conformity with *Governmental Accounting Standards Board* statements. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to be made.

Recommendation – The City should acquire knowledge of current accounting principles and required financial statement disclosures and prepare monthly and annual financial statements in conformity with *Governmental Accounting Standards Board* statements.

Management's Response – It is not cost effective for the City to prepare its own financial statements in conformity with *Governmental Accounting Standards Board* statements.

Status of Finding – The finding is repeated in the current year. See 2015-005.

CITY OF WASHBURN
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Finding 2014-007: Journal Entries, Capital Assets, and Debt Activity Records

Condition – Several journal entries were required to be made during the audit to present accurate financial statements, including the capital assets and debt activity.

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 the modified cash basis of accounting.

Cause – The adjustments for accurate financial statements, including capital assets and debt activity are not completed by the city auditor.

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

Recommendation – We recommend that management make the necessary journal entries including for capital assets and debt activity or maintain summary schedules which will provide the information needed for these entries to the auditor.

Management's Response – The staff will make every attempt to create and maintain summary schedules for the capital assets and debt activity for the City of Washburn.

Status of Finding – The finding is repeated in the current year. See 2015-006.