

CITY OF WASHBURN

**FINANCIAL STATEMENTS
DECEMBER 31, 2016**

WITH INDEPENDENT AUDITOR'S REPORT

CITY OF WASHBURN
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FOR THE YEARS ENDED DECEMBER 31, 2016

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CITY OF WASHBURN
CITY OFFICIALS
FOR THE YEAR ENDED DECEMBER 31, 2016

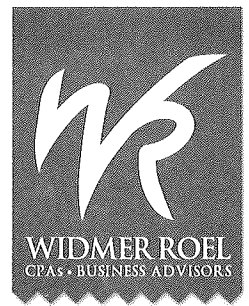
Current

Bryan Rothmann	Superintendent
Larry Thomas	President
Keith Jacobson	Commissioner
Reese Boehm	Commissioner
Kit Baumann	Commissioner
Noelle Kroll	Commissioner
Vacant	Auditor*

*Joan Zimmerman resigned as of March 5, 2017

December 31, 2016

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



1400 W. Century Avenue
Bismarck, ND 58503-0915

Phone: 701.221.2655
Toll Free: 866.494.3637
Fax: 701.221.2657

INDEPENDENT AUDITOR'S REPORT

City Council
City of Washburn
Washburn, North Dakota

We have audited the accompanying modified cash 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** as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. Those standards require that we plan and perform the audits 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining information of the **City of Washburn** as of December 31, 2016, and the respective changes in modified cash basis financial position thereof, for the years 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 these matters.

Other Matters


Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and notes to required supplementary information on pages 32-33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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 city officials are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.



Bismarck, North Dakota

June 1, 2018

CITY OF WASHBURN
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2016

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Washburn Airport Authority</u>	<u>Washburn Library</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 3,045,709	\$ 1,814,784	\$ 4,860,493	\$ 440,011	\$ 32,138
Taxes receivable	<u>9,975</u>	<u>-</u>	<u>9,975</u>	<u>-</u>	<u>-</u>
Total current assets	<u>3,055,684</u>	<u>1,814,784</u>	<u>4,870,468</u>	<u>440,011</u>	<u>32,138</u>
Capital assets					
Construction in progress	1,670,471	1,025,806	2,696,277	-	-
Buildings and infrastructure	10,947,201	11,983,121	22,930,322	1,797,651	-
Machinery and equipment	718,630	66,674	785,304	108,954	-
Less: accumulated depreciation	<u>(2,587,708)</u>	<u>(2,398,314)</u>	<u>(4,986,022)</u>	<u>(274,620)</u>	<u>-</u>
Total capital assets	<u>10,748,594</u>	<u>10,677,287</u>	<u>21,425,881</u>	<u>1,631,985</u>	<u>-</u>
Total assets	<u>\$ 13,804,278</u>	<u>\$ 12,492,071</u>	<u>\$ 26,296,349</u>	<u>\$ 2,071,996</u>	<u>\$ 32,138</u>

See Notes to Financial Statements

CITY OF WASHBURN

**STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2016**

LIABILITIES

Checks in excess of deposits	\$ 714,351	\$ -	\$ 714,351	\$ -	\$ -
Payroll withholdings payable	11,884	-	11,884	-	-
Accrued interest payable	60,508	15,775	76,283	-	-
Contracts payable	-	-	-	450,922	-
Long-term liabilities					
Due within one year					
Special assessment bonds payable	685,363	-	685,363	-	-
Lease payable	33,820	-	33,820	-	-
Revenue bonds payable	-	225,024	225,024	-	-
Due after one year					
Special assessment bonds payable, net of unamortized premium	9,348,722	-	9,348,722	-	-
Revenue bonds payable	-	3,950,000	3,950,000	-	-
	<u>10,854,648</u>	<u>4,190,799</u>	<u>15,045,447</u>	<u>450,922</u>	<u>-</u>
Total liabilities	<u>10,854,648</u>	<u>4,190,799</u>	<u>15,045,447</u>	<u>450,922</u>	<u>-</u>

NET POSITION

Net investment in capital assets	584,411	6,502,263	7,086,674	1,631,985	-
Restricted					
Debt service	1,593,568	-	1,593,568	-	-
Special purposes	1,188,235	-	1,188,235	-	-
Unrestricted	<u>(416,584)</u>	<u>1,799,009</u>	<u>1,382,425</u>	<u>(10,911)</u>	<u>32,138</u>
Total net position	<u>2,949,630</u>	<u>8,301,272</u>	<u>11,250,902</u>	<u>1,621,074</u>	<u>32,138</u>
Total liabilities and net position	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u> </u></u>

CITY OF WASHBURN

**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Program Revenues			Net Revenue (Expense) and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Washburn Airport Authority	Washburn Library
				Governmental Activities	Business-type Activities	Total		
GOVERNMENTAL ACTIVITIES								
General government	\$ 331,215	\$ 30,648	\$ -	\$ (300,567)	\$ -	\$ (300,567)		
Public safety	180,149	-	-	(180,149)	-	(180,149)		
Streets and public works	614,168	-	103,362	(510,806)	-	(510,806)		
Culture and recreation	92,615	-	-	(92,615)	-	(92,615)		
Interest on long-term debt	388,802	-	-	(388,802)	-	(388,802)		
Other expenses	984,712	-	-	(984,712)	-	(984,712)		
Total governmental activities	2,591,661	30,648	103,362	(2,457,651)	-	(2,457,651)		
BUSINESS-TYPE ACTIVITIES								
Water	850,607	503,381	-	-	(347,226)	(347,226)		
Sewer	97,027	145,400	-	-	48,373	48,373		
Garbage	96,427	88,987	-	-	(7,440)	(7,440)		
Total business-type activities	1,044,061	737,768	-	-	(306,293)	(306,293)		
Total primary government	\$ 3,635,722	\$ 768,416	\$ 103,362	(2,457,651)	(306,293)	(2,763,944)		
COMPONENT UNITS								
Airport authority	\$ 56,195	\$ 473,673	\$ -				\$ 417,478	\$ -
Library	22,920	20,010	-				-	(2,910)
Total component units	\$ 79,115	\$ 493,683	\$ -				417,478	(2,910)
GENERAL REVENUES								
Property taxes				266,184	-	266,184	16,451	16,612
Sales and use tax				321,334	-	321,334	-	-
Special assessments				684,831	-	684,831	-	-
Cigarette tax				3,771	-	3,771	-	-
Unrestricted state aid				290,076	-	290,076	-	-
Interest income				14,078	-	14,078	-	-
Internal balances				(1,200,128)	1,200,128	-	-	-
Miscellaneous revenue				1,777,071	-	1,777,071	422	-
Total general revenues				2,157,217	1,200,128	3,357,345	16,873	16,612
Change in net position				(300,434)	893,835	593,401	434,351	13,702
Net position - January 1, as previously reported				4,007,792	6,494,248	10,502,040	1,186,723	18,436
Prior period adjustment, see note 15				(757,728)	913,189	155,461	-	-
Net position - January 1, as restated				3,250,064	7,407,437	10,657,501	1,186,723	18,436
Net position - December 31				\$ 2,949,630	\$ 8,301,272	\$ 11,250,902	\$ 1,621,074	\$ 32,138

See Notes to Financial Statements

CITY OF WASHBURN
BALANCE SHEET – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	<u>Major Funds</u>					<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Projects</u>	<u>Sales Tax</u>	<u>Special Assessment</u>	<u>CDs</u>		
ASSETS							
Cash and cash equivalents	\$ 769,409	\$ -	\$ 714,743	\$ -	\$ 339,674	\$ 1,221,883	\$ 3,045,709
Taxes receivable	-	-	-	9,975	-	-	9,975
Total assets	<u>769,409</u>	<u>-</u>	<u>714,743</u>	<u>9,975</u>	<u>339,674</u>	<u>1,221,883</u>	<u>3,055,684</u>
LIABILITIES							
Checks in excess of deposits	-	390,115	-	324,236	-	-	714,351
Benefits payable	11,884	-	-	-	-	-	11,884
Total liabilities	<u>11,884</u>	<u>390,115</u>	<u>-</u>	<u>324,236</u>	<u>-</u>	<u>-</u>	<u>726,235</u>
DEFERRED INFLOWS							
Property taxes	-	-	-	9,975	-	-	9,975
FUND BALANCES							
Restricted for							
Debt service	-	-	714,743	-	-	878,825	1,593,568
Highways	-	-	-	-	-	97,410	97,410
Assigned	-	-	-	-	339,674	81,265	420,939
Unassigned	757,525	(390,115)	-	(324,236)	-	164,383	207,557
Total fund balances	<u>\$ 757,525</u>	<u>\$ (390,115)</u>	<u>\$ 714,743</u>	<u>\$ (324,236)</u>	<u>\$ 339,674</u>	<u>\$ 1,221,883</u>	<u>\$ 2,319,474</u>

CITY OF WASHBURN
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2016

Total fund balances for governmental funds		\$ 2,319,474
<p>Total net position reported for governmental activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.</p>		
Cost of capital assets	\$ 13,336,301	
Less accumulated depreciation	<u>(2,587,708)</u>	
Net capital assets		10,748,593
<p>Accrued interest payable for long-term liabilities is not due and payable in the current period and therefore is not reported as liabilities in the funds</p>		
		(60,508)
<p>Property taxes and revenues from local education agencies will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds</p>		
		9,975
<p>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. All liabilities - both current and long-term - are reported in the statement of net position.</p>		
<p>Balances at December 31, 2016 are:</p>		
Special assessment bonds payable		(10,130,363)
Capital lease payable		(33,820)
Bond discount		<u>96,278</u>
Total net position of governmental activities		\$ <u>2,949,629</u>

CITY OF WASHBURN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Major Funds</u>					<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Projects</u>	<u>Sales Tax</u>	<u>Special Assessment</u>	<u>CDs</u>		
REVENUES							
Property taxes	\$ 265,939	\$ -	\$ -	\$ -	\$ -	\$ 245	\$ 266,184
Sales tax	-	-	321,334	-	-	-	321,334
Special assessments	-	-	-	674,856	-	-	674,856
Licenses, permits, and fees	21,174	-	-	-	-	-	21,174
Intergovernmental	292,185	-	-	-	-	105,025	397,210
Fines and forfeits	9,474	-	-	-	-	-	9,474
Interest income	1,421	1,335	1,985	-	6,782	2,556	14,079
Miscellaneous	17,079	1,351,361	-	-	392,303	16,329	1,777,072
Total revenues	<u>607,272</u>	<u>1,352,696</u>	<u>323,319</u>	<u>674,856</u>	<u>399,085</u>	<u>124,155</u>	<u>3,481,383</u>
EXPENDITURES							
General government	1,285,203	-	-	-	-	6,716	1,291,919
Public safety	180,149	-	-	-	-	-	180,149
Streets and public works	-	2,291,572	-	-	-	96,701	2,388,273
Culture and recreation	84,363	-	-	-	-	1,079	85,442
Other	149,603	-	-	-	-	(13,484)	136,119
Debt service							
Principal	-	145,000	-	390,000	-	32,590	567,590
Bond issuance costs	-	-	-	173,550	-	2,517	176,067
Interest and fees	-	32,142	-	-	-	-	32,142
Total expenditures	<u>1,699,318</u>	<u>2,468,714</u>	<u>-</u>	<u>563,550</u>	<u>-</u>	<u>126,119</u>	<u>4,857,701</u>
Excess (deficiency) of revenues over expenditures	<u>(1,092,046)</u>	<u>(1,116,018)</u>	<u>323,319</u>	<u>111,306</u>	<u>399,085</u>	<u>(1,964)</u>	<u>(1,376,318)</u>
OTHER FINANCING SOURCES (USES), INCLUDING TRANSFERS							
Transfers in	111,277	250,000	-	-	-	800,996	1,162,273
Transfers to proprietary funds	-	(2,001,124)	(111,277)	-	-	(250,000)	(2,362,401)
Payment on refunded bonds	-	-	-	(1,250,000)	-	-	(1,250,000)
Bond proceeds	-	1,705,000	-	1,150,000	-	-	2,855,000
Discounts on bond issuance	-	(41,475)	-	(14,375)	-	-	(55,850)
Total other financing sources (uses)	<u>111,277</u>	<u>(87,599)</u>	<u>(111,277)</u>	<u>(114,375)</u>	<u>-</u>	<u>550,996</u>	<u>349,022</u>
Net change in fund balances	<u>(980,769)</u>	<u>(1,203,617)</u>	<u>212,042</u>	<u>(3,069)</u>	<u>399,085</u>	<u>549,032</u>	<u>(1,027,296)</u>
Fund balances - January 1	1,738,294	813,502	502,701	(321,167)	(59,411)	672,851	3,346,770
Fund balances - December 31	<u>\$ 757,525</u>	<u>\$ 609,885</u>	<u>\$ 714,743</u>	<u>\$ (324,236)</u>	<u>\$ 339,674</u>	<u>\$ 1,221,883</u>	<u>\$ 2,319,474</u>

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, 2016**

Net change in fund balances - total governmental funds \$ (1,027,296)

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	\$ 2,196,504	
Current year depreciation expense	<u>(313,660)</u>	1,882,844

The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term debt in the statement of net position. Also, the repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of special assessment bonds		(2,855,000)
Repayment of special assessment bonds		1,701,140
Change in accrued interest payable		(60,508)
Amortization of bond discount		48,410

Delinquent property taxes and special assessments will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred inflows of resources in the governmental funds.

9,975

Change in net position of governmental activities \$ (300,435)

CITY OF WASHBURN
STATEMENT OF NET POSITION– MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total Enterprise Funds</u>
ASSETS				
Cash and cash equivalents	\$ 759,357	\$ 1,000,020	\$ 55,407	\$ 1,814,784
Noncurrent assets				
Construction in progress	522,580	503,226	-	1,025,806
Buildings and infrastructure	10,991,351	991,770	-	11,983,121
Machinery and equipment	66,674	-	-	66,674
Less accumulated depreciation	<u>(2,388,396)</u>	<u>(9,918)</u>	<u>-</u>	<u>(2,398,314)</u>
Total noncurrent assets	<u>9,192,209</u>	<u>1,485,078</u>	<u>-</u>	<u>10,677,287</u>
Total assets	<u>\$ 9,951,566</u>	<u>\$ 2,485,098</u>	<u>\$ 55,407</u>	<u>\$ 12,492,071</u>
LIABILITIES				
Accrued interest payable	\$ 12,831	\$ 2,944	\$ -	\$ 15,775
Revenue bonds payable				
Due within one year	208,395	16,629	-	225,024
Due after one year	<u>3,005,000</u>	<u>945,000</u>	<u>-</u>	<u>3,950,000</u>
Total liabilities	<u>3,226,226</u>	<u>964,573</u>	<u>-</u>	<u>4,190,799</u>
NET POSITION				
Net investment in capital assets	5,978,814	523,449	-	6,502,263
Unrestricted	<u>746,526</u>	<u>997,076</u>	<u>55,407</u>	<u>1,799,009</u>
Total net assets	<u>6,725,340</u>	<u>1,520,525</u>	<u>55,407</u>	<u>8,301,272</u>
Total liabilities and net position	<u>\$ 9,951,566</u>	<u>\$ 2,485,098</u>	<u>\$ 55,407</u>	<u>\$ 12,492,071</u>

CITY OF WASHBURN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total Enterprise Funds</u>
OPERATING REVENUES				
Water operations	\$ 500,888	\$ -	\$ -	\$ 500,888
Sewer operations	-	142,423	-	142,423
Garbage collections charges	-	-	88,987	88,987
Miscellaneous	<u>2,493</u>	<u>2,977</u>	<u>-</u>	<u>5,470</u>
Total operating revenues	<u>503,381</u>	<u>145,400</u>	<u>88,987</u>	<u>737,768</u>
OPERATING EXPENSES				
Salaries and wages	76,185	46,651	-	122,836
Health insurance	18,497	14,982	-	33,479
Utilities	26,475	4,310	-	30,785
Supplies, maintenance and repairs	75,262	4,172	-	79,434
Contracted services	(79,216)	6,720	96,271	23,775
Other	416,542	-	156	416,698
Depreciation	<u>255,264</u>	<u>9,918</u>	<u>-</u>	<u>265,182</u>
Total operating expenses	<u>789,009</u>	<u>86,753</u>	<u>96,427</u>	<u>972,189</u>
Operating income	<u>(285,628)</u>	<u>58,647</u>	<u>(7,440)</u>	<u>(234,421)</u>
NON-OPERATING REVENUES (EXPENSES)				
Debt service - interest and service charges	<u>(61,598)</u>	<u>(10,274)</u>	<u>-</u>	<u>(71,872)</u>
Income (loss) before transfers	(347,226)	48,373	(7,440)	(306,293)
TRANSFERS IN FROM PRIMARY FUNDS	<u>493,475</u>	<u>706,653</u>	<u>-</u>	<u>1,200,128</u>
Change in net position	<u>146,249</u>	<u>755,026</u>	<u>(7,440)</u>	<u>893,835</u>
Net position - January 1, as previously reported	6,018,370	413,031	62,847	6,494,248
Prior period adjustment, see note 15	<u>560,721</u>	<u>352,468</u>	<u>-</u>	<u>913,189</u>
Net position - January 1, as restated	<u>6,579,091</u>	<u>765,499</u>	<u>62,847</u>	<u>7,407,437</u>
Net position - December 31	<u>\$ 6,725,340</u>	<u>\$ 1,520,525</u>	<u>\$ 55,407</u>	<u>\$ 8,301,272</u>

CITY OF WASHBURN
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Fund</u>	<u>Total Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 503,381	\$ 145,400	\$ 88,987	\$ 737,768
Payments to suppliers	(457,560)	(30,184)	(96,427)	(584,171)
Payments to employees	(76,185)	(46,651)	-	(122,836)
	<u>(30,364)</u>	<u>68,565</u>	<u>(7,440)</u>	<u>30,761</u>
Net cash provided by (used in) operating activities				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfer in	493,475	706,653	-	1,200,128
Inter fund loans	9,800	-	-	9,800
	<u>503,275</u>	<u>706,653</u>	<u>-</u>	<u>1,209,928</u>
Net cash provided by noncapital financing activities				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases and construction of capital assets	(575,417)	(700,899)	-	(1,276,316)
Proceeds of bond insurance	540,000	520,000	-	1,060,000
Principal payments	(225,000)	-	-	(225,000)
Interest payments and service charges	(48,767)	(7,330)	-	(56,097)
	<u>(309,184)</u>	<u>(188,229)</u>	<u>-</u>	<u>(497,413)</u>
Net cash used in capital and related financing activities				
Net change in cash and cash equivalents	<u>163,727</u>	<u>586,989</u>	<u>(7,440)</u>	<u>743,276</u>
Cash and cash equivalents - January 1	<u>595,630</u>	<u>413,031</u>	<u>62,847</u>	<u>1,071,508</u>
Cash and cash equivalents - December 31	<u>\$ 759,357</u>	<u>\$ 1,000,020</u>	<u>\$ 55,407</u>	<u>\$ 1,814,784</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Income (loss) from operations	(285,628)	58,647	(7,440)	(234,421)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	<u>255,264</u>	<u>9,918</u>	<u>-</u>	<u>265,182</u>
Net cash provided by (used in) operating activities	<u>\$ (30,364)</u>	<u>\$ 68,565</u>	<u>\$ (7,440)</u>	<u>\$ 30,761</u>

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The City of Washburn, North Dakota, was incorporated under the laws of the State of North Dakota and operates under a city commission form of government. The accounting policy of the City of Washburn, North Dakota, is to maintain the accounting records on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

Financial Reporting Entity

The accompanying financial statements present the activities of the City of Washburn (“City”). The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

- if the organization is legally separate (can sue and be sued in their own name)
- if the City appoints a voting majority of the organization’s board
- the ability of the City to impose its will on that organization
- the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City
- if the organization has a fiscal dependency on the City

Based on these criteria, the component units discussed below are included within the City as a reporting entity.

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. The fiscal year end of the component units is the same as the City.

Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the primary government of the City of Washburn. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and nonexchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods and services.

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

Fund Financial Statements:

The fund financial statements provide information about the City's funds. Separate statements for each fund category *governmental* and *proprietary* are presented. 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 non-major funds.

Governmental funds typically are financed which most governmental functions through those funds. 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.

Special Assessment Fund - This fund accounts for the activity of the City's special assessment collections which are used for various purposes.

CD Fund - This fund accounts for the activity of the City's certificate of deposit. Interest income can be 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 up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major enterprise 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
FOR THE YEAR ENDED DECEMBER 31, 2016**

Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item (b) below.

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

- a) All governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary funds utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (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 assets.

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 activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and 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
FOR THE YEAR ENDED DECEMBER 31, 2016

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.

Cash and Cash Equivalents

According to 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, 2016, were \$4,679,489; the carrying balances at this date were \$4,618,291. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$250,000 was covered by Federal Depository Insurance and \$4,429,489 was collateralized with securities held by the pledging financial institutions' agent but not in the City's name. During the year, the board reviewed the pledge of securities semi-annually as required by state law.

Capital Assets

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

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

Building and infrastructure	20 to 75 years
Machinery and vehicles	10 to 20 years

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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.

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.

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.

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.

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 – Constraints are placed on the use of fund balances which are either (a) Externally imposed 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
FOR THE YEAR ENDED DECEMBER 31, 2016

Committed – Committed fund balances 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 – Assigned fund balances are amounts that are constrained by the government’s intent to be used for specific 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 – Unassigned fund balances are those that have not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. 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.

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

Cash and cash equivalents include amounts in demand deposits, saving accounts, and certificates of deposit.

The certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 1.50% – 1.75% in 2016. At December 31, 2016, the City and component units held certificates of deposit in the amount of \$349,728.

Custodial Credit Risk

Custodial credit risk is associated with the failure of a depository financial institution to recover its deposits or collateralized securities that are in possession of outside parties. The City does not have a formal policy that addresses custodial credit risk for deposits. However, in accordance with state statutes, the City maintains deposits at those depository banks authorized by the City Commission, all of which are covered by federal deposit insurance. These statutes also require that the deposits be protected by insurance, collateral, or surety bond. The fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. The only exception is for funds that are deposited with the Bank of North Dakota, which is owned and backed by the full faith and credit of the State of North Dakota. At December 31, 2016, the carrying amount of the City’s deposits was \$4,618,291 and the balance was \$467,489, all of which was insured and collateralized.

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 3 – PROPERTY TAXES

Taxes receivable represents the past three years of uncollected current and delinquent taxes. Management believes all delinquent taxes will be collected; therefore, no allowance has been established for uncollectible taxes receivable.

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

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

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

NOTE 4 – CAPITAL ASSETS

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 3,344,974	\$ 2,028,959	\$ 3,703,462	\$ 1,670,471
Capital assets being depreciated:				
Buildings and infrastructure	7,226,079	3,721,122	-	10,947,201
Machinery and vehicles	568,745	149,885	-	718,630
Total	<u>7,794,824</u>	<u>3,871,007</u>	<u>-</u>	<u>11,665,831</u>
Less accumulated depreciation				
Buildings and infrastructure	2,005,529	279,797	-	2,285,326
Machinery and vehicles	268,519	33,863	-	302,382
Total	<u>2,274,048</u>	<u>313,660</u>	<u>-</u>	<u>2,587,708</u>
Total capital assets being depreciated, net	<u>5,520,776</u>	<u>3,557,347</u>	<u>-</u>	<u>9,078,123</u>
Total governmental activities	<u>\$ 8,865,750</u>	<u>\$ 5,586,306</u>	<u>\$ 3,703,462</u>	<u>\$ 10,748,594</u>

(Continued)

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Business-type activities (proprietary funds)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Water fund</u>				
Capital assets not being depreciated:				
Construction in progress	\$ 677,178	\$ 575,417	\$ 730,015	\$ 522,580
Capital assets being depreciated:				
Buildings and infrastructure	10,261,336	730,015	-	10,991,351
Machinery and vehicles	66,674	-	-	66,674
Total	<u>10,328,010</u>	<u>730,015</u>	<u>-</u>	<u>11,058,025</u>
Less accumulated depreciation				
Buildings and infrastructure	2,098,469	249,200	-	2,347,669
Machinery and vehicles	34,663	6,064	-	40,727
Total	<u>2,133,132</u>	<u>255,264</u>	<u>-</u>	<u>2,388,396</u>
Total capital assets being depreciated, net	<u>8,194,878</u>	<u>474,751</u>	<u>-</u>	<u>8,669,629</u>
Total water fund	<u>8,872,056</u>	<u>1,050,168</u>	<u>730,015</u>	<u>9,192,209</u>
<u>Sewer fund</u>				
Capital assets not being depreciated:				
Construction in progress	794,097	700,899	991,770	503,226
Capital assets being depreciated:				
Buildings and infrastructure	-	991,770	-	991,770
Less accumulated depreciation				
Buildings and infrastructure	-	9,918	-	9,918
Total capital assets being depreciated, net	<u>-</u>	<u>981,852</u>	<u>-</u>	<u>981,852</u>
Total sewer fund	<u>794,097</u>	<u>1,682,751</u>	<u>991,770</u>	<u>1,485,078</u>
Total business-type activities	<u>\$ 9,666,153</u>	<u>\$ 2,732,919</u>	<u>\$ 1,721,785</u>	<u>\$ 10,677,287</u>

(Continued)

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Discretely presented component unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 167,725	\$ 541,224	\$ 708,949	\$ -
Capital assets being depreciated:				
Buildings and infrastructure	1,088,702	708,949	-	1,797,651
Machinery and vehicles	108,954	-	-	108,954
Total	<u>1,197,656</u>	<u>708,949</u>	<u>-</u>	<u>1,906,605</u>
Less accumulated depreciation				
Buildings and infrastructure	189,721	29,053	-	218,774
Machinery and vehicles	50,249	5,597	-	55,846
Total	<u>239,970</u>	<u>34,650</u>	<u>-</u>	<u>274,620</u>
Total capital assets being depreciated, net	<u>957,686</u>	<u>674,299</u>	<u>-</u>	<u>1,631,985</u>
Total airport fund	<u>\$ 1,125,411</u>	<u>\$ 1,215,523</u>	<u>\$ 708,949</u>	<u>\$ 1,631,985</u>

Depreciation expense was charged to functions/programs of the City and component unit as follows for the year ended December 31, 2016:

Governmental activities	
General government	\$ 41,636
Streets and public works	264,851
Culture and recreation	<u>7,173</u>
Total	<u>\$ 313,660</u>
Business-type activities	
Water	255,264
Sewer	<u>9,918</u>
Total	<u>\$ 265,182</u>
Discretely presented component unit	
Airport	<u>\$ 34,650</u>

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 5 – LONG-TERM LIABILITIES

The City issues special assessment and revenue bonds to provide funds for economic development and for the construction of major capital facilities including infrastructure. Special assessment bonds have been issued for governmental activities. In addition, special assessment bonds have been issued to refund special assessment bonds. Special assessment improvement bonds will be repaid from amounts levied against property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received.

Revenue bonds have been issued for the business-type activities. These bonds will be repaid with revenues collected on services provided to residents.

The City issued \$1,150,000 in Refunding Improvement Bonds, series 2016 for a 2009 Refunding Improvement bonds. The bonds have a term of 8 year maturing in 2024 with interest rates from 1.05% to 1.60%. First payment was made on November 1, 2016. The total cash flow savings to the City attributable to the refunding of these bonds is \$111,687 with a net present value of approximately \$104,194.

The City issued \$2,765,000 in Refunding Improvement Bonds 2016, series B on November 8, 2016. The bonds were issued for the street, water and sewer improvement district 2016-1 and have an allocation of 62% street related (general fund), 20% water related, and 19% sewer related. The Bonds have a term of 21 years maturing in 2037 with the first payment on May 1, 2017.

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

Governmental activities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Special assessment bonds payable	\$ 8,943,918	\$ 2,855,000	\$ 1,668,555	\$ 10,130,363	\$ 685,363
Bond discount	-	(103,717)	(7,439)	(96,278)	-
Lease payable	66,405	-	32,585	33,820	33,820
Total governmental activities	<u>\$ 9,010,323</u>	<u>\$ 2,751,283</u>	<u>\$ 1,693,701</u>	<u>\$ 10,067,905</u>	<u>\$ 719,183</u>

Business-type activities (proprietary funds)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds payable	\$ 3,237,706	\$ 1,162,318	\$ 225,000	\$ 4,175,024	\$ 225,024

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

Special Assessment Bonds

The City issues special assessment bonds for various construction projects. These bonds will be repaid from debt service or capital projects funds by amounts levied against the property owners benefited by the project.

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Special assessment bonds at December 31, 2016 are comprised of the following individual issues:

\$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%.	\$ 90,000
\$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 4.0%.	155,000
\$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%.	3,160,000
\$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%.	938,296
\$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%.	2,237,067
\$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%.	695,000
\$1,150,000 of Refunding Improvement Bonds of 2016; due in annual installments of \$115,000 to \$170,000 through May 1, 2024; interest is at 1.05% to 1.60%.	1,150,000
\$2,765,000 of Refunding Improvement Bonds of 2016; due in annual installments of \$100,000 to \$180,000 through May 1, 2037; interest is at 3.2%. 62% of the bond issuance is related to street improvement districts.	<u>1,705,000</u>
Total special assessment bonds	\$ <u><u>10,130,363</u></u>

Capital Lease Payable

\$162,610 Elgin Pelican Sweeper Lease, due in annual installments of \$35,102 through January 1, 2017; interest is at 4.0%.	\$ <u><u>33,820</u></u>
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**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

	Special Assessments Bonds Payable	
	Principal	Interest
2017	\$ 685,363	\$ 255,860
2018	775,579	243,347
2019	731,664	227,967
2020	724,747	212,106
2021	709,747	195,473
2022-2026	3,094,982	709,653
2027-2031	1,951,646	321,952
2032-2036	1,345,642	105,496
2037	110,993	1,776
	\$ 10,130,363	\$ 2,273,630
	Capital Lease Payable	
	Principal	Interest
2017	\$ 33,820	\$ 1,282

Revenue Bonds

The City’s proprietary fund revenue bonds at December 31, 2016 are comprised of the following:

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 Plan 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%. \$ 995,000

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%. 348,395

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 \$35,000 through September 1, 2034 with an interest rate at 2.0%. 441,629

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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%. 1,330,000

\$2,765,000 of Refunding Improvement Bonds of 2016; due in annual installments of \$100,000 to \$180,000 through May 1, 2037; interest is at 3.2%. 20% of the funds are related to water improvement districts and 18% of the funds are related to sewer improvement districts. 1,060,000

\$ 4,175,024

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

	Revenue Bonds Payable	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 225,024	\$ 47,325
2018	294,421	43,750
2019	278,336	40,050
2020	285,253	36,225
2021	285,253	32,275
2022-2026	1,410,018	100,000
2027-2031	808,354	37,125
2032-2036	519,358	10,800
2037	<u>69,007</u>	<u>1,104</u>
	<u>\$ 4,175,024</u>	<u>\$ 348,654</u>

NOTE 6 – RISK MANAGEMENT

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

In 1986, state agencies and political subdivisions 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, auto and public assets insurance coverage. The coverage by NDIRF is limited to losses of two million dollars per occurrence for general liability and automobile coverage and to \$2,000,000 for public assets coverage.

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 one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides the City of Washburn with blanket fidelity bond coverage in the amount of \$250,000 for the City employees.

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

The City has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides single health insurance coverage to all full-time employees.

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

NOTE 7 – TRANSFERS

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

	Transfer In					Total
	General Fund	Projects Fund	Other Governmental Funds	Water Fund	Sewer Fund	
Transfer Out						
Sales and use fund	\$ 111,277	\$ -	\$ -	\$ -	\$ -	\$ 111,277
Projects fund	-	-	800,996	493,475	706,653	2,001,124
Other governmental funds	-	250,000	-	-	-	250,000
Total	<u>\$ 111,277</u>	<u>\$ 250,000</u>	<u>\$ 800,996</u>	<u>\$ 493,475</u>	<u>\$ 706,653</u>	<u>\$ 2,362,401</u>

Transfers out of the sales and use fund were to provide financing for the new fire truck. Transfers out of the projects fund were to reimburse the MMDA fund that was used for contractor payments and for business-type fund transfers used to allocate contractor payments to capitalize current year infrastructure additions. The transfer out of other governmental funds was of surge fund dollars used to help finance current year projects.

NOTE 8 – 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 contributions 6.12% of eligible compensation. The employer portion paid was \$15,222 for the year ending December 31, 2016.

NOTE 9 – CONSTRUCTION COMMITMENTS

At December 31, 2016, the City had the following commitments:

	Contract Amount	Total Completed	Remaining Balance
2016 Street and utility	\$ 2,301,728	\$ 2,184,474	\$ 117,254
2016 Sealcoat project	102,575	20,471	82,104
	<u>\$ 2,404,303</u>	<u>\$ 2,204,945</u>	<u>\$ 199,358</u>

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 10 – LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2016.

For the year ended December 31, 2016, the General Fund expended \$1,103,166. 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 – DEFICIT FUND BALANCES

The following fund had a deficit balance as of December 31, 2016:

Governmental funds	
Project	\$ (391,140)
Special assessment	(324,236)

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

NOTE 12 – RELATED PARTY TRANSACTIONS

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

Adam Thomas works as a maintenance man for the City and his father, Larry Thomas, is the President of the City Commission.

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 13 – FUND BALANCES

At December 31, 2016, a summary of the governmental fund balance classifications are as follows:

	<u>Major Funds</u>					<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Projects</u>	<u>Sales Tax</u>	<u>Special Assessments</u>	<u>CD's</u>		
Restricted							
Sales tax	\$ -	\$ -	\$ 714,743	\$ -	\$ -	\$ -	\$ 714,743
MMDA	-	-	-	-	-	423,003	423,003
Water treatment plant upgrade	-	-	-	-	-	455,822	455,822
Highway	-	-	-	-	-	97,410	97,410
Assigned							
CD's	-	-	-	-	339,674	-	339,674
Snow removal	-	-	-	-	-	30,295	30,295
Projects	-	-	-	-	-	-	-
Lodging tax	-	-	-	-	-	6,295	6,295
Sidewalk fund	-	-	-	-	-	38,720	38,720
Special assessments assistance	-	-	-	-	-	5,955	5,955
Unassigned							
General	757,525	-	-	-	-	-	757,525
Projects	-	(390,115)	-	-	-	-	(390,115)
Special assessments	-	-	-	(324,236)	-	164,383	(159,853)
Total	<u>\$ 757,525</u>	<u>\$ (390,115)</u>	<u>\$ 714,743</u>	<u>\$ (324,236)</u>	<u>\$ 339,674</u>	<u>\$ 1,221,883</u>	<u>\$ 2,319,474</u>

NOTE 14 – TAX ABATEMENTS

The Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosure*, is a requirement that became effective for years beginning after December 15, 2015. This statement will improve financial reporting by giving users of the financial statements essential information not consistently or comprehensively reported to the public at present.

As of December 31, 2016, the County provides tax abatements through four programs, Property Tax Incentives for New or Expanding Businesses, Renaissance Zone Property Tax Exemptions for Commercial Buildings, Renaissance Zone Property Tax Exemptions for Residential Buildings, and Exemption of Certain New Single Family, Condo and Townhouse Residential Properties.

(Continued)

**CITY OF WASHBURN
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

The property tax incentives for new or expanding businesses, North Dakota Century Code (NDCC) Chapter 40-57.1, provides property tax abatements to encourage activities in the public interest by assisting in establishing industrial plants, expanding and retaining existing businesses, and to help promote economic activities within the State. This allows a new or expanding business project to possibly be granted a property tax exemption for up to five years. Before this can be done the business must be certified as a primary sector business by the North Dakota Commerce Department. The City Council may grant a partial or complete exemption from ad valorem taxation under this section for projects operating in the retail sector.

The Renaissance Zone Property Tax Exemptions, NDCC Chapter 40-63, is for Commercial and Residential buildings located within a renaissance zone that allow for the property to be excluded for up to five years, provided the City approves the exemption. A renaissance zone is a geographic area a City applies to the State Department of Commerce to designate a portion of the City into a renaissance zone.

The exemption for certain new single family, condo and townhouse residential properties, NDCC Chapter 57-02, allows for newly constructed homes, excluding land, to possibly be exempt for up to two years from when construction begins up to a maximum of a \$15,000 of the home's value. This is assuming the home is still owned by the builder, unoccupied and providing the exemption is approved by the City and/or County.

The following information relevant to the disclosure of these programs for the fiscal year ended December 31, 2016:

	Amount of Taxes During 2016
Tax Exemption Program	
Property tax incentives for new/expanding businesses	\$ 2,873
Renaissance zone exemption - commercial buildings	1,541
Renaissance zone exemption - residential buildings	1,627
Exemption of certain new single family, condo, townhomes	<u>921</u>
	<u>\$ 6,962</u>

**CITY OF WASHBURN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 15 – PRIOR PERIOD ADJUSTMENTS

The City restated its beginning net position in the governmental activities, business-type activities, Washburn Airport Authority, and Washburn Library and fund balance in the General Fund, Projects Fund, and Other governmental funds. The tables below provide the purpose of the adjustment and the dollar amount for each fund.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Washburn Airport Authority</u>	<u>Washburn Library</u>
Fund balance - January 1, as previously reported	\$ 4,007,792	\$ 6,494,248	\$ 1,186,723	\$ 18,436
Construction in progress related to wastewater and 2014-2015 street and utility project during the year ended December 31, 2015	(805,595)	1,015,507	-	-
Long-term liabilities related to issuances during the year ended December 31, 2014	-	(102,318)	-	-
Bond discounts amortized during the year ended December 31, 2015	<u>47,867</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - January 1, as restated	<u>\$ 3,250,064</u>	<u>\$ 7,407,437</u>	<u>\$ 1,186,723</u>	<u>\$ 18,436</u>

	<u>Water Fund</u>	<u>Sewer Fund</u>
Net position - January 1, as previously reported	\$ 6,018,370	\$ 413,031
Construction in progress related to wastewater and 2014-2015 street and utility project during the year ended December 31, 2015	221,410	794,097
Long-term liabilities related to issuances during the year ended December 31, 2014	(102,318)	-
Long-term liabilities related to financial statement presentation during the year ended December 31, 2015	<u>441,629</u>	<u>(441,629)</u>
Net position - January 1, as restated	<u>\$ 6,579,091</u>	<u>\$ 765,499</u>

NOTE 16 – SUBSEQUENT EVENTS

The City completed the 2016 Street & Utility project with the final invoice was dated February 14, 2017, the project was reported as construction in progress for 2016. The project was split between the project fund \$1,860,670, water fund \$494,240, and sewer fund \$552,386, for a total project cost of \$2,907,296 to be added as infrastructure in 2017.

In 2017, the City received grant revenue from the State Water Commission for construction on the Raw Water Intake Project that was originally approved at \$1,795,000 but the City was later approved for a \$539,250 amendment which totals \$2,334,750.

In January 2017, the City paid the last annual installment for the Elgin Pelican Sweeper Lease of \$35,102.

CITY OF WASHBURN

**REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016**

CITY OF WASHBURN
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
REVENUES				
Property taxes	\$ -	\$ -	\$ 265,939	\$ 265,939
Licenses, permits, and fees	19,550	19,550	21,174	1,624
Intergovernmental	429,000	429,000	292,185	(136,815)
Fines and forfeits	7,500	7,500	9,474	1,974
Interest income	3,500	3,500	1,421	(2,079)
Miscellaneous	<u>27,500</u>	<u>27,500</u>	<u>17,079</u>	<u>(10,421)</u>
Total revenues	<u>487,050</u>	<u>487,050</u>	<u>607,272</u>	<u>120,222</u>
EXPENDITURES				
Current				
General government	381,853	381,853	1,285,203	903,350
Public safety	180,149	180,149	180,149	-
Culture and recreation	-	-	84,363	84,363
Other	<u>34,150</u>	<u>34,150</u>	<u>149,603</u>	<u>115,453</u>
Total expenditures	<u>596,152</u>	<u>596,152</u>	<u>1,699,318</u>	<u>1,103,166</u>
Excess of revenues over expenditures	<u>(109,102)</u>	<u>(109,102)</u>	<u>(1,092,046)</u>	<u>(982,944)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>-</u>	<u>-</u>	<u>111,277</u>	<u>111,277</u>
Net change in fund balance	<u>(109,102)</u>	<u>(109,102)</u>	<u>(980,769)</u>	<u>(871,667)</u>
Fund balances - January 1	<u>1,738,294</u>	<u>1,738,294</u>	<u>1,738,294</u>	<u>-</u>
Fund balances - End of year	<u>\$ 1,629,192</u>	<u>\$ 1,629,192</u>	<u>\$ 757,525</u>	<u>\$ (871,667)</u>

CITY OF WASHBURN

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

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 project fund and Sales Tax special revenue fund for the year ended December 31, 2016.

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

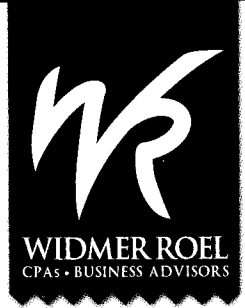
- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a breakdown of the estimated revenues and appropriations.
- The City holds a public hearing where any taxpayer may testify 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.

NOTE 2 – LEGAL COMPLIANCE – BUDGETS

Expenditures exceeded budget years ended December 31 by the following amounts:

	<u>Total Expenditures</u>	<u>Appropriations</u>	<u>Over</u>
Governmental funds			
General fund	\$ 1,699,316	\$ 596,150	\$ 1,103,166
Projects fund	2,468,714	-	2,468,714
Other governmental funds	1,939,668	1,939,668	-
Proprietary funds			
Water	850,607	444,400	406,207
Sewer	97,027	92,000	5,027
Garbage	96,427	125,000	(28,573)
Component units			
Airport	56,194	16,908	39,286
Library	22,920	16,908	6,012

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



1400 W. Century Avenue
Bismarck, ND 58503-0915

Phone: 701.221.2655
Toll Free: 866.494.3637
Fax: 701.221.2657

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

To the City Council
City of Washburn
Washburn, North Dakota

We have audited, 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, the modified cash financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of **City of Washburn (City)** as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the **City of Washburn's** basic financial statements and have issued our report thereon dated June 1, 2018.

Internal Control over Financial Reporting

In planning and performing our audits, we considered **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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **City of Washburn's** internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: 2016-001 through 2016-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying schedule of findings and questioned costs as item 2016-004.

City of Washburn's Response to Findings

City of Washburn's response to the findings identified in our audits is described in the accompanying schedule of findings and questioned costs. **City of Washburn's** response was not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is intended 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.



Bismarck, North Dakota
June 1, 2018

CITY OF WASHBURN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Governmental activities	Unmodified – modified cash basis
Business-type activities	Unmodified – modified cash basis
Discretely presented component units	Unmodified – modified cash basis
Major governmental funds	Unmodified – modified cash basis
Proprietary funds	Unmodified – modified cash basis
Aggregate remaining fund information	Unmodified – modified cash basis

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> </u> yes	<u> X </u> no

Noncompliance material to financial statements noted?

<u> X </u> yes	<u> </u> no
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CITY OF WASHBURN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING 2016-001 (MATERIAL WEAKNESS) – SEGREGATION OF DUTIES

Condition

The City and the related component units have 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

The component units and City have limited resources and are, therefore, unable to hire sufficient staff to adequately segregate all accounting functions.

Effect

Whenever there is a lack of segregation of accounting functions, there is an increased risk that the financial statements could be materially misstated, whether due to errors or fraud.

Recommendation

For the City's component units, we recommend that the governing boards remain aware of the risks caused by the lack of segregation of duties and provide appropriate oversight whenever possible. We recommend that the Boards review or continue to review periodic financial statements, and review and approve all disbursements.

At the City level, we recommend that the City Commission and the City Auditor remain involved in oversight over all City disbursements. We recommend that the Commission continue to review all disbursements, including supporting documentation when appropriate, and that all vouchers be approved by a responsible official. We further recommend that the City consider having the Commission review the monthly bank reconciliation.

Views of Responsible Officials

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
DECEMBER 31, 2016

FINDING 2016-002 (MATERIAL WEAKNESS) – 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*, 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.

Views of Responsible Officials

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
DECEMBER 31, 2016

FINDING 2016-003 (MATERIAL WEAKNESS) – JOURNAL ENTRIES, CAPITAL ASSETS & DEBT ACTIVITY

Condition

There were several material journal entries that were required in order to present materially correct financial statements, including entries for recording capital assets and debt activity for government-wide financial statements.

Criteria

The City should have proper internal controls and procedures for reporting accurate financial statements.

Cause

The adjustments, including government-wide adjustments, were not made by the City.

Effect

The amount of the journal entries proposed by Widmer Roel overall had a material effect on the financial statements.

Recommendation

We recommend that management make the appropriate journal entries to report the financial statements on modified cash basis of accounting. We also recommend that the City maintain a summary schedule of capital assets and debt activity supporting the necessary entries for the financial statements.

Views of Responsible Officials

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
DECEMBER 31, 2016

FINDING 2016-004 (MATERIAL WEAKNESS, MATERIAL NON-COMPLIANCE) – REVIEW OF PLEDGED SECURITIES

Condition

The City Commission reviewed the pledged securities one time during the current year.

Criteria

North Dakota Century Code states pledges of securities should be reviewed by the City Commission semiannually.

Cause

The pledged securities report was not presented to the City Commission as required by the Century Code.

Effect

The City was not in compliance with North Dakota Century Code.

Recommendation

We recommend that the City Auditor and the City Commission review the pledged securities in comparison with their bank balances twice per year to ensure compliance with North Dakota Century Code.

Views of Responsible Officials

The City Commission discovered that they were not in compliance with Century Code and have implemented procedures to ensure that pledged securities are reviewed twice each year.