

CITY OF OAKES
OAKES, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

CITY OF OAKES
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CITY OF OAKES
LIST OF OFFICIALS
DECEMBER 31, 2015

CITY COUNCIL

Office

Monty Zimmer
Larry Engel
Jeff Forward
Arthur Conklin
Nathan O'Brien
Greg Strutz
Nick Harris

Mayor

EMPLOYEES:

Gary Neuharth
April Haring
Marke Roberts
Pat Nelson

City Attorney
City Auditor
Chief of Police
Public Works Director

Harold J. Rotunda
Certified Public Accountant
INDEPENDENT AUDITOR'S REPORT

City Council
City of Oakes
Oakes, North Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities, business type activities, each major fund and aggregate remaining fund information of City of Oakes 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of City of Oakes as of December 31, 2015, and the changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

Basis of Accounting

I 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 U.S. generally accepted accounting principles. My opinion is not modified with respect to that matter.

Other Matters

U.S. generally accepted accounting principles require that the management discussion and analysis and budgetary comparison information on pages 4-11 and 36 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Oakes' basic financial statements. The Schedule of Activity is presented for purposes of additional analysis and is not a required part of the basis financial statements.

The Schedule of Activity is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the Schedule of Activity is fairly stated, in all material respects, in relation to the basis financial statements as a whole.

West Fargo, North Dakota
March 2, 2015

CITY OF OAKES
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
DECEMBER 31, 2015

| | Governmental Activities | Business-type Activities | Total | Component Units |
|--|----------------------------|-----------------------------|----------------------|--------------------|
| ASSETS | | | | |
| Cash and investments | 1,702,169.22 | 731,202.46 | 2,433,371.68 | |
| Accounts receivable | | | - | |
| Taxes receivable | | | - | |
| Intergovernmental receivable | | | - | |
| Contract for deed | | | - | |
| Capital assets (net of accumulated depreciation) | 9,103,458.55 | 19,481,038.63 | 28,584,497.18 | |
| Total Assets | 10,805,627.77 | 20,212,241.09 | 31,017,868.86 | - |
| LIABILITIES | | | | |
| Accounts Payable | | | - | |
| Salaries and benefits payable | | | - | |
| Deferred revenue | | | - | |
| Long-term liabilities: | | | - | |
| Due within one year: | | | - | |
| Bonds payable | 260,000.00 | 271,112.00 | 531,112.00 | |
| Notes payable | - | - | - | |
| Due after one year: | | | - | |
| Bonds payable | 4,640,000.00 | 12,540,149.89 | 17,180,149.89 | |
| Notes payable | 127,725.73 | - | 127,725.73 | |
| Total liabilities | 5,027,725.73 | 12,811,261.89 | 17,838,987.62 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 4,075,732.82 | 6,669,776.74 | 10,745,509.56 | |
| Restricted for: | | | - | |
| Capital projects | - | - | - | |
| Debt service | - | - | - | |
| Unrestricted | 1,702,169.22 | 731,202.46 | 2,433,371.68 | |
| Total net position | 5,777,902.04 | 7,400,979.20 | 13,178,881.24 | - |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

| | Expenses | Program Revenues Charges for Services | Operating grants and Contributions | Revenue & Changes in Net Position Governmental Activities | Component Units |
|--------------------------------|--------------|---|---------------------------------------|--|--------------------|
| Governmental activities: | | | | | |
| General government | 475,079.01 | | | (475,079.01) | |
| Public safety | 584,283.54 | | | (584,283.54) | |
| Highways and streets | 144,992.83 | | | (144,992.83) | |
| Economic development | 110,616.59 | | | (110,616.59) | |
| Other capital outlays | 178,165.16 | | | (178,165.16) | |
| Interest expense | 344,058.00 | | | (344,058.00) | |
| Depreciation- Unallocated | 271,846.00 | | | (271,846.00) | |
| Total Governmental Activities | 2,109,041.13 | - | - | (2,109,041.13) | - |
| Business-type activities | | | | | |
| Water | 284,713.67 | 535,421.19 | | 250,707.52 | |
| Sewer | 104,773.12 | 249,696.91 | | 144,923.79 | |
| Garbage | 234,311.94 | 277,080.33 | | 42,768.39 | |
| Debt | 194,491.57 | 13,467.23 | | (181,024.34) | |
| Capital outlay | 124,740.14 | | | (124,740.14) | |
| | | | | - | |
| | | | | - | |
| | | | | - | |
| Depreciation | 1,134,726.00 | | | (1,134,726.00) | |
| Total Business-type activities | 2,077,756.44 | 1,075,665.66 | - | (1,002,090.78) | |
| Total | 4,186,797.57 | 1,075,665.66 | - | (3,111,131.91) | - |
| Net expense | | Governmental (2,109,041.13) | Business-type (1,002,090.78) | Total (3,111,131.91) | - |
| General Revenues | | | | | |
| Taxes: | | | | | |
| Property taxes | | 565,087.84 | - | 565,087.84 | |
| Sales taxes | | 451,753.55 | | 451,753.55 | |
| Special assessments | | 539,994.14 | | 539,994.14 | |
| Licenses and permits | | 13,211.06 | | 13,211.06 | |
| Intergovernmental | | 699,495.76 | 326,223.00 | 1,025,718.76 | |
| Interest income | | 601.77 | 8,013.76 | 8,615.53 | |
| Other revenue | | 377,738.83 | 37,628.14 | 415,366.97 | |
| Total General Revenues | | 2,647,882.95 | 371,864.90 | 3,019,747.85 | - |
| Transfers in (out) | | (84,361.94) | 84,361.94 | - | |
| Change in Net Position | | 454,479.88 | (545,863.94) | (91,384.06) | - |
| Net Position- January 1 | | 5,323,422.16 | 7,946,843.14 | 13,270,265.30 | - |
| Net Position- December 31 | | 5,777,902.04 | 7,400,979.20 | 13,178,881.24 | - |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
BALANCE SHEET- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
DECEMBER 31, 2015

| | GENERAL | STREET 2015-1 | SALES TAX | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------|-------------------|------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | |
| Cash and investments | (14,229.65) | 111,825.73 | 54,526.23 | 1,550,046.91 | 1,702,169.22 |
| Accounts receivable | | | | | - |
| Taxes receivable | | | | | - |
| Special assessment receivable | | | | | - |
| Intergovernmental receivable | | | | | - |
| Total Assets | (14,229.65) | 111,825.73 | 54,526.23 | 1,550,046.91 | 1,702,169.22 |
| LIABILITIES | | | | | |
| Accounts Payable | | | | | - |
| Salaries and benefits payable | | | | | - |
| Deferred revenue | - | | | - | - |
| Total liabilities | - | - | - | - | - |
| FUND BALANCE | | | | | |
| Restricted for Capital Projects | | 111,825.73 | - | (3.89) | 111,821.84 |
| Restricted for Debt Service | | - | | 1,024,583.85 | 1,024,583.85 |
| Restricted for other purposes | | | 54,526.23 | 525,466.95 | 579,993.18 |
| Unassigned | (14,229.65) | | | - | (14,229.65) |
| Total fund balance | (14,229.65) | 111,825.73 | 54,526.23 | 1,550,046.91 | 1,702,169.22 |
| Total liabilities and fund balance | (14,229.65) | 111,825.73 | 54,526.23 | 1,550,046.91 | 1,702,169.22 |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
 SHEET TO THE STATEMENT OF NET ASSETS- MODIFIED CASH BASIS
 DECEMBER 31, 2015

Total Fund Balances for Governmental Funds 1,702,169.22

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

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

| | | |
|-------------------------------|---------------|--------------|
| Cost of capital assets | 12,041,150.55 | |
| Less accumulated depreciation | 2,937,692.00 | |
| Net capital assets | | 9,103,458.55 |

Property taxes 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 revenues in the funds.

Long-term liabilities applicable to the District'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 assets. Balances at year end are:

| | |
|-------------------|----------------|
| Bonds payable | (3,915,000.00) |
| SRF Notes payable | (985,000.00) |
| Notes payable | (127,725.73) |

Total Net Position of Governmental Activities 5,777,902.04

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES- GOVERNMENTAL FUNDS- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

| | GENERAL | STREET 2015-1 | SALES TAX | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|--------------------|-----------------------|---------------------|--------------------------------|--------------------------------|
| Property taxes | 167,433.59 | | | 397,654.25 | 565,087.84 |
| Sales taxes | | | 451,753.55 | - | 451,753.55 |
| Special Assessments | | | | 539,994.14 | 539,994.14 |
| Intergovernmental | 300,821.08 | | - | 398,674.68 | 699,495.76 |
| Interest | - | | - | 601.77 | 601.77 |
| Charges for services | 10,758.72 | | | 249,259.66 | 260,018.38 |
| Other | 43,569.99 | | | 87,361.52 | 130,931.51 |
| Total Revenues | 522,583.38 | - | 451,753.55 | 1,673,546.02 | 2,647,882.95 |
| Current: | | | | | |
| General government | 209,178.83 | | | 283,900.18 | 493,079.01 |
| Public safety | 314,295.38 | | | 269,988.16 | 584,283.54 |
| Highways and streets | | | | 144,992.83 | 144,992.83 |
| Economic development | | | 110,616.59 | - | 110,616.59 |
| Other capital outlays | | 1,903,174.27 | - | 282,270.95 | 2,185,445.22 |
| Debt Service | | | | | |
| Principal | | | - | 417,957.00 | 417,957.00 |
| Interest expense | | | - | 268,232.23 | 268,232.23 |
| Total Expenditures | 523,474.21 | 1,903,174.27 | 110,616.59 | 1,667,341.35 | 4,204,606.42 |
| Excess revenues (expenditures) | (890.83) | (1,903,174.27) | 341,136.96 | 6,204.67 | (1,556,723.47) |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | 104,800.00 | - | - | 434,856.24 | 539,656.24 |
| Transfers out | (127,714.63) | - | (339,876.78) | (156,426.77) | (624,018.18) |
| Bond proceeds | | 2,015,000.00 | - | 158,856.96 | 2,173,856.96 |
| Total other financing sources and uses | (22,914.63) | 2,015,000.00 | (339,876.78) | 437,286.43 | 2,089,495.02 |
| Net change in fund balances | (23,805.46) | 111,825.73 | 1,260.18 | 443,491.10 | 532,771.55 |
| Fund balance- beginning | 9,575.81 | - | 53,266.05 | 1,106,555.81 | 1,169,397.67 |
| Fund balance- ending | (14,229.65) | 111,825.73 | 54,526.23 | 1,550,046.91 | 1,702,169.22 |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
 RECONCILIATION OF GOVERNMENTAL STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances- Total Governmental Funds 532,771.55

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

Governmental funds report capital outlay 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 outlays exceeded depreciation in the current year.

| | | |
|-----------------------------------|--------------|--------------|
| Current year capital outlay | 2,025,280.06 | |
| Current year depreciation expense | 271,846.00 | 1,753,434.06 |

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 342,131.23
 (2,173,856.96)

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the decrease in taxes receivable. -

Change in Net Position of Governmental Activities 454,479.88

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
STATEMENT OF NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2015

| | Water | Sewer | Sanitation | Other | Total |
|--|------------------|-------------------|-------------------|----------------------|----------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and investments | 65,098.50 | 200,954.25 | 110,523.36 | 354,626.35 | 731,202.46 |
| Noncurrent assets: | | | | | |
| Capital assets (net of accumulated depreciation) | | | | 19,481,038.63 | 19,481,038.63 |
| Total Assets | 65,098.50 | 200,954.25 | 110,523.36 | 19,835,664.98 | 20,212,241.09 |
| LIABILITIES | | | | | |
| Accounts Payable | | | | | - |
| Salaries and benefits payable | | | | | - |
| Deferred revenue | | | | | - |
| Long-term liabilities: | | | | | |
| Due within one year: | | | | | |
| Bonds payable | | | | 271,112.00 | 271,112.00 |
| Notes payable | | | | - | - |
| Due after one year: | | | | | |
| Bonds payable | | | | 12,540,149.89 | 12,540,149.89 |
| Notes payable | | | | - | - |
| Total liabilities | - | - | - | 12,811,261.89 | 12,811,261.89 |
| NET POSITION | | | | | |
| Net investment in capital assets | - | - | - | 6,669,776.74 | 6,669,776.74 |
| Restricted for: | | | | | |
| Capital projects | | | | - | - |
| Debt service | | | | - | - |
| Unrestricted | 65,098.50 | 200,954.25 | 110,523.36 | 354,626.35 | 731,202.46 |
| Total net position | 65,098.50 | 200,954.25 | 110,523.36 | 7,024,403.09 | 7,400,979.20 |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

| | Water | Sewer | Sanitation | Other | Total |
|--|--------------|--------------|-------------|----------------|--------------|
| OPERATING REVENUE | | | | | |
| Charges for services | 535,421.19 | 249,696.91 | 277,080.33 | 13,467.23 | 1,075,665.66 |
| OPERATING EXPENSES | | | | | |
| Salaries | 112,984.56 | 53,327.33 | 62,546.45 | | 228,858.34 |
| Benefits | 19,568.76 | 18,137.79 | 22,224.64 | | 59,931.19 |
| Equipment | | | | | - |
| Contract services | | | 90,478.50 | | 90,478.50 |
| Electricity | 48,760.70 | 7,167.28 | | | 55,927.98 |
| Supplies | 75,948.04 | 1,526.99 | 19,389.08 | | 96,864.11 |
| Repairs and maintenance | 18,933.30 | 23,467.62 | 20,360.01 | - | 62,760.93 |
| Insurance | 2,981.80 | 300.86 | 4,493.98 | | 7,776.64 |
| Office expense | 1,149.43 | | 546.84 | | 1,696.27 |
| Depreciation | | | | 1,134,726.00 | 1,134,726.00 |
| Miscellaneous | 4,387.08 | 845.25 | 14,272.44 | | 19,504.77 |
| Total operating expenses | 284,713.67 | 104,773.12 | 234,311.94 | 1,134,726.00 | 1,758,524.73 |
| Operating income (loss) | 250,707.52 | 144,923.79 | 42,768.39 | (1,121,258.77) | (682,859.07) |
| NON-OPERATING REVENUE (EXPENSE) | | | | | |
| Property taxes | | | | | - |
| Interest income | 6,413.53 | 412.75 | | 1,187.48 | 8,013.76 |
| Grant income | | | | 326,223.00 | 326,223.00 |
| Interest expense | | | | (194,491.57) | (194,491.57) |
| Capital outlay | (88,522.85) | (36,217.29) | - | - | (124,740.14) |
| Other | 639.01 | 484.00 | 11,781.78 | 24,723.35 | 37,628.14 |
| Total non-operating rev (exp) | (81,470.31) | (35,320.54) | 11,781.78 | 157,642.26 | 52,633.19 |
| Income (loss) before transfers | 169,237.21 | 109,603.25 | 54,550.17 | (963,616.51) | (630,225.88) |
| Transfers in | 119,530.15 | 71,766.13 | 35,000.00 | 535,555.18 | 761,851.46 |
| Transfers out | (427,048.14) | (203,241.38) | (47,200.00) | - | (677,489.52) |
| Change in net position | (138,280.78) | (21,872.00) | 42,350.17 | (428,061.33) | (545,863.94) |
| Net Position- January 1 | 203,379.28 | 222,826.25 | 68,173.19 | 7,452,464.42 | 7,946,843.14 |
| Net Position- December 31 | 65,098.50 | 200,954.25 | 110,523.36 | 7,024,403.09 | 7,400,979.20 |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
STATEMENT OF CASH FLOWS- MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2015

| | Water | Sewer | Sanitation | Other | Total |
|--|--------------|--------------|--------------|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | 535,421.19 | 249,696.91 | 277,080.33 | 13,467.23 | 1,075,665.66 |
| Payments to suppliers | (171,729.11) | (51,445.79) | (171,765.49) | | (394,940.39) |
| Payments to employees | (112,984.56) | (53,327.33) | (62,546.45) | | (228,858.34) |
| Other receipts | 639.01 | 484.00 | 11,781.78 | 350,946.35 | 363,851.14 |
| Net cash provided by (used in) opera | 251,346.53 | 145,407.79 | 54,550.17 | 364,413.58 | 815,718.07 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | | |
| Transfers from other funds | 119,530.15 | 71,766.13 | 35,000.00 | 535,555.18 | 761,851.46 |
| Transfers to other funds | (427,048.14) | (203,241.38) | (47,200.00) | - | (677,489.52) |
| Net cash provided by (used in) nonca | (307,517.99) | (131,475.25) | (12,200.00) | 535,555.18 | 84,361.94 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | |
| Purchase of capital assets | (88,522.85) | (36,217.29) | - | (871,187.57) | (995,927.71) |
| Principal paid on capital debt | - | - | - | (417,570.53) | (417,570.53) |
| Interest paid on capital debt | - | - | - | (194,491.57) | (194,491.57) |
| Debt proceeds | | | | 22,905.00 | 22,905.00 |
| Net cash provided by (used in) capita | (88,522.85) | (36,217.29) | - | (1,460,344.67) | (1,585,084.81) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest and dividends | 6,413.53 | 412.75 | - | 1,187.48 | 8,013.76 |
| Net cash provided by (used in) invest | 6,413.53 | 412.75 | - | 1,187.48 | 8,013.76 |
| Net increase (decrease) in cash | (138,280.78) | (21,872.00) | 42,350.17 | (559,188.43) | (676,991.04) |
| Balance- beginning of year | 203,379.28 | 222,826.25 | 68,173.19 | 913,814.78 | 1,408,193.50 |
| Balance- end of year | 65,098.50 | 200,954.25 | 110,523.36 | 354,626.35 | 731,202.46 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | | |
| Operating income (loss) | 250,707.52 | 144,923.79 | 42,768.39 | (1,121,258.77) | (682,859.07) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | | |
| Depreciation expense | - | - | - | 1,134,726.00 | 1,134,726.00 |
| Change in assets and liabilities: | | | | | |
| Refundable deposits | | | | | - |
| Miscellaneous receipts (expense) | 639.01 | 484.00 | 11,781.78 | 350,946.35 | 363,851.14 |
| Net cash provided by operating activ | 251,346.53 | 145,407.79 | 54,550.17 | 364,413.58 | 815,718.07 |

The accompanying notes are an integral part of these financial statements.

CITY OF OAKES
OAKES, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Oakes (City) have been prepared on a modified cash basis of accounting. The modified cash basis of accounting differs from 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 City's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the 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 such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Based on the above criteria the city has the following component units:

Oakes Airport Authority- The Airport Authority was organized to provide management of the airport in Oakes. The Council appoints all Board members and approves its tax levy.

CITY OF Oakes
Notes to Financial Statements- Continued

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Government-wide statements: The statement of net assets 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 financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenses/expenditures. Funds are organized into two major categories: governmental and proprietary. The City currently has no fiduciary funds.

The City reports the following major governmental funds:

General Fund. The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Construction fund. The construction fund is used to record the bond proceeds and expenses related to the construction projects.

CITY OF OAKES
Notes to Financial Statements- Continued

The City reports the following major enterprise funds:

Water- accounts for operating activities of the City's water utility services.

Sewer- accounts for operating activities of the City's sewer utility services.

Sanitation- accounts for operating activities of the City's sanitation services

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements. In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting as defined below.

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

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 presents 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.

CITY OF OAKES
Notes to Financial Statements- Continued

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net 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.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide 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. All government-wide financial statements would be presented on the accrual basis of accounting.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

CITY OF OAKES

Notes to Financial Statements- Continued

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

D. Budgets

Based upon available financial information and requests by the city council, the auditor prepares the City budget. The budget is prepared for the general fund on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them. All annual appropriations lapse at year-end.

City taxes must be levied by the governing board on or before October 7. The taxes levied must be certified to the County auditor by October 10. The governing body of the City may amend its tax levy and budget for the current fiscal year on or before the tenth day of October of each year, but the certification must be filed with the County auditor by October 10. The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits and money market accounts. Investments consist of certificates of deposits, with a maturity date in excess of 90 days, stated at cost.

F. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Net estimated historical cost was used to value the majority of assets acquired prior to January 1, 2004. Prior to January 1, 2004, governmental funds infrastructure assets were not capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF OAKES
Notes to Financial Statements- Continued

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 of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

| ASSETS | YEARS |
|------------------------|-------|
| Permanent Buildings | 30 |
| Vehicles and equipment | 7 |

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 assets. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

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

H. Fund Balance

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.

CITY OF OAKES

Notes to Financial Statements- Continued

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

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

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

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

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

The council has set a General Fund minimum fund balance target at 10% of expenditures and recurring transfers.

I. Interfund Transactions

In the governmental 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.

CITY OF OAKES

Notes to Financial Statements- Continued

All other interfund transactions, except reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. In the government-wide financial statements, interfund transactions have been eliminated.

J. Use of estimates

The preparation of financial statements in conformity with the Other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTE 2: LEGAL COMPLIANCE - BUDGETS

BUDGET AMENDMENTS

The Council amended the City budget for 2015. The budget amendments are detailed in the attached schedule on page 34.

EXPENDITURES OVER APPROPRIATIONS

The City did not overspend any budgets.

No remedial action is required.

NOTE 3 DEPOSITS AND INVESTMENTS

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

Deposits must either be deposited with the Bank of North Dakota or in other financial institution 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 deposit not covered by insurance or bonds.

CITY OF OAKES

Notes to Financial Statements- Continued

Authorized collateral includes bills, notes, or bonds issued by the United State government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal Land Bank bonds, notes, warrants, and 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, instrumentalities, or by any City, city, township, school district, park district, or other political subdivision of the State of North Dakota whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States, or such other securities approved by the banking board.

At December 31, 2015, the City's carrying amount of deposits was \$2,433,372. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,183,372 was collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk

State statutes authorize the City to invest in:(1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.(2) 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.(3) Certificates of Deposit fully insured by the federal deposit insurance corporation or the state.(4) Obligations of the state.

Concentration of Credit Risk

The City does not have a limit on the amount it may invest in any one issuer.

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 4: PROPERTY TAXES

Taxes receivable represents the past five years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

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

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

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

NOTE 5: TRANSFERS

The City transfers operating revenues between funds. A schedule of the operating transfers is on page 33.

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 6: CAPITAL ASSETS

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

| | Balance January 1 | Increases | Decreases | Balance December 31 |
|------------------------------------|----------------------|-----------|-----------|------------------------|
| Construction in progress | 1,560,833 | | | 1,560,833 |
| Land | 2,284,202 | 2,007,280 | | 4,291,482 |
| Total | 3,845,035 | 2,007,280 | | 5,852,315 |
| Capital assets, being depreciated | | | | |
| Governmental activities | | | | |
| Bldgs and Improvements | 1,028,832 | | | 1,028,832 |
| Vehicles & Equipment | 1,185,952 | 18,000 | 15,670 | 1,188,282 |
| Infrastructure | 3,971,722 | | | 3,971,722 |
| Total Cap Assets | 6,186,506 | 18,000 | 15,670 | 6,188,836 |
| Less accumulated depreciation for: | | | | |
| Buildings & Improve | 785,020 | 14,140 | | 799,160 |
| Vehicles & Equip | 969,371 | 58,238 | 15,670 | 1,011,939 |
| Infrastructure | 927,125 | 199,468 | | 1,126,593 |
| Total Accumulated Dep | 2,681,516 | 271,846 | 15,670 | 2,937,692 |
| Total Cap Assets, Net | 3,504,990 | | | 3,251,144 |
| Total Cap Assets, Net | 7,350,025 | | | 9,103,459 |
| Construction in progress | 497,561 | 871,187 | | 1,368,748 |
| Land | 39,895 | | | 39,895 |
| Total | 537,456 | 871,187 | | 1,408,643 |
| Capital assets, being depreciated | | | | |
| Business-type activities | | | | |
| Bldgs and Improvements | 4,825,342 | | | 4,825,342 |
| Vehicles & Equipment | 585,482 | | | 585,482 |
| Infrastructure | 18,791,043 | | | 18,791,043 |
| Total Cap Assets | 24,201,867 | | | 24,201,867 |
| Less accumulated depreciation for: | | | | |
| Buildings & Improve | 1,753,465 | 142,677 | | 1,896,142 |
| Vehicles & Equip | 345,485 | 52,497 | | 397,982 |
| Infrastructure | 2,895,796 | 939,552 | | 3,835,348 |
| Total Accumulated Dep | 4,994,746 | 1,134,726 | | 6,129,472 |
| Total Cap Assets, Net | 19,207,121 | | | 18,072,395 |
| Total Cap Assets, Net | 19,744,577 | | | 19,481,038 |

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

| | |
|--------------------------|---------|
| Governmental Activities: | |
| General government | 36,135 |
| Public safety | 10,007 |
| Street | 225,704 |
| Total | 271,846 |

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 7: LONG-TERM DEBT

Changes in Long-Term Liabilities - During the year ended December 31, 2015, the following changes occurred in liabilities reported in long-term debt:

| | Payable 2014 | Increases | Decreases | Payable 2015 | Due Within One Year |
|--------------------------|-----------------|-----------|-----------|-----------------|------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| USDA Loan | | | | | |
| Bonds Payable | 2,115,000 | 2,015,000 | 215,000 | 3,915,000 | 225,000 |
| SRF Notes | 1,081,000 | | 96,000 | 985,000 | 103,000 |
| TOTAL | 3,196,000 | 2,015,000 | 311,000 | 4,900,000 | |
| BUSINESS-TYPE ACTIVITIES | | | | | |
| USDA Loan | 12,112,817 | 22,905 | 294,460 | 11,841,262 | 293,653 |
| Bonds Payable | 545,000 | | 40,000 | 505,000 | 40,000 |
| SRF Notes | 517,000 | | 52,000 | 465,000 | 55,000 |
| Notes payable | 31,110 | | 31,110 | | |
| TOTAL | 13,205,927 | 22,905 | 417,570 | 12,811,262 | |

Bonds payable consist of the following:

| | Maturity Date | Interest Rate | Balance Outstanding |
|---------------------------|------------------|------------------|------------------------|
| Refunding imp bonds- 2007 | 11/01/2023 | 4.00-4.30% | 510,000 |
| Refunding imp bonds- 2007 | 05/01/2022 | 4.00-4.25% | 195,000 |
| Refunding imp bonds- 2004 | 05/01/2018 | 3.10-6.00% | 95,000 |
| Refunding imp bonds- 2014 | 05/01/2025 | 1.5% | 1,100,000 |
| Refunding imp bonds- 2015 | 05/01/2025 | 1.5% | 2,015,000 |
| Total | | | 3,915,000 |
| Refunding imp bonds- 2015 | 05/01/2026 | 1.80-3.40% | 505,000 |
| Bank of ND | 11/01/2038 | 3.00% | 117,624 |
| Bank of ND | 11/01/2040 | 3.00% | 515,069 |
| USDA bond | 05/01/2046 | 3.25% | 1,095,709 |
| USDA bond | 05/01/2041 | 3.75% | 2,535,224 |
| USDA bond | 05/01/2047 | 3.75% | 2,905,857 |
| USDA bond | 05/01/2043 | 2.75% | 1,693,697 |
| USDA bond | 05/01/2040 | 3.00% | 2,462,623 |
| USDA bond | 05/01/2040 | 3.00% | 515,459 |
| Total | | | 12,346,262 |

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions. Special Assessment bonds are paid directly from debt service sinking funds. Special assessments are certified annually in amounts sufficient to pay debt service requirements. Whenever all special assessments appropriated and collected for a special assessment district are insufficient to pay principal and interest then due on special assessment improvement bonds issued against such improvement district, the city is required to levy a deficiency levy upon all taxable property in the City.

CITY OF OAKES
Notes to Financial Statements- Continued

SRF NOTES PAYABLE

The City obtained financing from the State of North Dakota's State Revolving Loan Fund (SRF) to finance improvements to the City's utility systems. Details relative to the outstanding notes payable are shown below:

| | Maturity Date | Interest Rate | Balance Outstanding |
|----------------------------|---------------|---------------|---------------------|
| GOVERNMENTAL ACTIVITIES | | | |
| Water treatment bonds-1995 | 03/01/2026 | 2.5% | 590,000 |
| Water treatment bonds-1995 | 03/01/2023 | 2.5% | 80,000 |
| Water treatment bonds-1995 | 03/01/2022 | 2.5% | 315,000 |
| Total | | | 985,000 |
| BUSINESS-TYPE ACTIVITIES | | | |
| Water Treatment-1998 | 09/01/2023 | 2.5% | 215,000 |
| Water treatment bonds-1995 | 03/01/2023 | 2.5% | 71,000 |
| Water treatment bonds-1995 | 03/01/2017 | 2.5% | 16,000 |
| Water treatment bonds-1995 | 03/01/2027 | 2.5% | 163,000 |
| Total | | | 465,000 |

The annual long-term debt service requirements for bonds payable, as of December 31, 2015, are as follows:

GOVERNMENTAL ACTIVITIES

| Year Ending December 31 | Bonds Payable | | SRF Notes Payable | |
|----------------------------|---------------|-----------|-------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2016 | 340,000 | 129,993 | 97,000 | 24,625 |
| 2017 | 340,000 | 120,500 | 102,000 | 22,200 |
| 2018 | 345,000 | 109,666 | 104,000 | 19,650 |
| 2019 | 320,000 | 98,218 | 105,000 | 17,050 |
| 2020 | 325,000 | 87,298 | 107,000 | 14,425 |
| 2021-2025 | 1,480,000 | 265,260 | 410,000 | 34,325 |
| 2026-2030 | 765,000 | 72,326 | 60,000 | 1,500 |
| TOTAL | 3,915,000 | 883,310 | 985,000 | 133,775 |
| 2016 | 343,025 | 405,104 | 53,000 | 11,625 |
| 2017 | 358,084 | 394,280 | 53,000 | 10,300 |
| 2018 | 368,373 | 383,180 | 45,000 | 8,975 |
| 2019 | 379,009 | 371,465 | 47,000 | 7,850 |
| 2020 | 389,910 | 359,213 | 47,000 | 6,675 |
| 2021-2025 | 1,927,659 | 1,596,784 | 190,000 | 15,175 |
| 2026-2030 | 2,153,608 | 1,234,175 | 30,000 | 1,125 |
| 2031-2035 | 2,359,119 | 836,564 | | |
| 2036-2040 | 2,547,302 | 396,870 | | |
| 2041-2043 | 1,304,019 | 87,275 | | |
| TOTAL | 12,346,262 | 6,123,155 | 465,000 | 61,725 |

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 8. RESERVED OR DESIGNATED FUND EQUITY

Fund equity in the various funds has been reserved or designated for the following purposes:

Reserved:

| | |
|-------------------------------|---------------|
| Police vehicle replacement | 26,472 |
| Public works building | 1,147 |
| Water contingency | 41,448 |
| Sewer contingency | 29,470 |
| Garbage equipment replacement | <u>41,697</u> |
| Total | 140,234 |

Designated:

| | |
|-----------------------------|-----------|
| Debt Service fund- | |
| Designated for debt service | 1,024,584 |

NOTE 9: PENSION PLANS

NORTH DAKOTA PUBLIC EMPLOYEE RETIREMENT SYSTEM (NDPERS)

The City participates in the North Dakota Public Employees Retirement System (NDPERS) - Main System. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

A. DESCRIPTION OF PENSION PLAN

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

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

CITY OF OAKES

Notes to Financial Statements- Continued

B. PENSION BENEFITS

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

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

C. DEATH AND DISABILITY BENEFITS

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

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

CITY OF OAKES
Notes to Financial Statements- Continued

D. REFUNDS OF MEMBER ACCOUNT BALANCE

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

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

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

E. MEMBER AND EMPLOYER CONTRIBUTIONS

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

F. PENSION EXPENSE RELATED TO PENSIONS

\$53,565 reported as expense related to pensions resulting from Employer contributions for the year ended June 30, 2015.

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

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

CITY OF OAKES
Notes to Financial Statements- Continued

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

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

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

CITY OF OAKES

Notes to Financial Statements- Continued

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

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

NOTE 10: RISK MANAGEMENT

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

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

The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of \$1,000,000 for its employees. The State Bonding fund does not currently charge any premium for this coverage.

The City has workers compensation with the Workforce, Safety and Insurance and purchases commercial insurance for personal property, building, inland marine, and boiler and machinery.

CITY OF OAKES
 FUND BALANCE
 DECEMBER 31, 2015

| | BEGINNING BALANCE | REVENUE | EXPENSE | TRANSFERS IN (OUT) | ENDING BALANCE |
|--------------------------------|----------------------|--------------|--------------|-----------------------|-------------------|
| 100 GENERAL FUNDS | 9,575.81 | 522,583.38 | 523,474.21 | (22,914.63) | (14,229.65) |
| 201 STREET FUND | 111,983.19 | 175,861.09 | 144,992.83 | (97,275.25) | 45,576.20 |
| 202 SOCIAL SECURITY FUND | 6,785.58 | 32,520.14 | 40,249.94 | 8,200.00 | 7,255.78 |
| 203 RETIREMENT | 3,603.57 | 19,229.94 | 73,559.64 | 70,000.00 | 19,273.87 |
| 205 ADVERTISING FUND | 26,040.32 | 15,655.57 | 20,853.80 | | 20,842.09 |
| 206 EMERGENCY FUND | 15,006.28 | 3,097.30 | | | 18,103.58 |
| 207 FORESTRY | 98.50 | 8,747.06 | 6,078.26 | 14,000.00 | 16,767.30 |
| 208 CEMETERY | 46.73 | 9,006.76 | 19,248.12 | 10,194.63 | - |
| 209 ARMORY | 10,142.94 | 26,384.48 | 27,418.45 | | 9,108.97 |
| 210 PERPETUAL CEMETERY | 72,244.33 | 2,624.05 | 175.00 | | 74,693.38 |
| 215 SALES TAX- POOL | - | 112,938.40 | - | (112,938.40) | - |
| 216 SALES TAX- CITY | 45,485.31 | 112,938.45 | 2,000.00 | (114,000.00) | 42,423.76 |
| 217 SALES TAX- OEI | 7,780.74 | 112,938.32 | 108,616.59 | | 12,102.47 |
| 218 SALES TAX- INFRASTRUCTURE | - | 112,938.38 | - | (112,938.38) | - |
| 220 PUBLIC SAFETY GRANT | 5,724.17 | 5,815.00 | 33,213.13 | 4,000.00 | (17,673.96) |
| 221 POLICE VEHICLE REPLACEMENT | 11,472.06 | - | | 15,000.00 | 26,472.06 |
| 222 GENERAL BUILDING RESERVE | 5,540.12 | - | | 1,320.00 | 6,860.12 |
| 223 PUBLIC WORKS BUILDING RES | 1,146.75 | | | | 1,146.75 |
| 224 PUBLIC WORKS EQUIPMENT | 5,394.87 | 37,650.00 | 52,938.63 | 89,000.00 | 79,106.24 |
| 230 VENTURE/OAKES DEVELOP | 56,208.05 | 88.64 | | | 56,296.69 |
| 250 CITY SHOP | 10,379.93 | 3,688.96 | 29,812.77 | 40,000.00 | 24,256.12 |
| 801 FLEX MEDICAL SPENDING | 0.06 | 12,214.28 | 11,763.24 | | 451.10 |
| 802 FLEX DEPENDENT CARE | 0.10 | 4,979.00 | 4,979.00 | | 0.10 |
| 812 FUNDRAISING | - | | | | - |
| 902 AIRPORT | 4,751.21 | 300,663.60 | 178,067.73 | | 127,347.08 |
| 904 AMBULANCE | 18,971.98 | 229,859.26 | 249,385.10 | | (553.86) |
| 906 LIBRARY | 9,511.19 | 17,174.98 | 16,548.83 | | 10,137.34 |
| | | | | | |
| TOTAL SPECIAL REVENUE | 428,317.98 | 1,357,013.66 | 1,019,901.06 | (185,437.40) | 579,993.18 |
| | | | | | |
| 340 2010-2 SDWG/JVG EXT | 28,252.29 | 281,377.52 | 310,095.88 | | (466.07) |
| 302 2003-3 STREET | 24,403.31 | 10,074.09 | 10,123.38 | 75.25 | 24,429.27 |
| 303 PILOT DRAIN PROJECT ASSMT | 1,242.86 | 2,452.12 | 832.27 | | 2,862.71 |
| 313 2009-2 PHASE I W/S IMP | 7,181.54 | 19,398.76 | 21,316.74 | | 5,263.56 |
| 305 2003-1/2003-2 SEWER | - | | | | - |
| 306 2003-4 JVG ROAD | (0.00) | | | | (0.00) |
| 307 2003-5 DRAIN | - | | | | - |
| 308 2006-2 KOLA AVENUE | - | | | | - |
| 333 STREET IMP 2015-1 | - | 238,151.14 | | | 238,151.14 |
| 314 2009-2 PHASE I W/S IMP | 449,018.34 | 193,391.85 | 143,886.23 | | 498,523.96 |
| 317 2012-2 PHASE 4 WATER/SEWER | 81,553.66 | 104,832.69 | 86,244.62 | - | 100,141.73 |

CITY OF OAKES
 FUND BALANCE
 DECEMBER 31, 2015

| | BEGINNING BALANCE | REVENUE | EXPENSE | TRANSFERS IN (OUT) | ENDING BALANCE |
|---------------------------------|----------------------|--------------|--------------|-----------------------|-------------------|
| 350 POOL PROJECT | 117,623.15 | - | 74,884.00 | 112,938.40 | 155,677.55 |
| TOTAL DEBT SERVICE | 709,275.15 | 849,678.17 | 647,383.12 | 113,013.65 | 1,024,583.85 |
| 525 HWY 1 IMPROVEMENT | (0.00) | | | | (0.00) |
| 524 CLINES ADDITION | (0.00) | | | | (0.00) |
| 515 2010-1 PHASE 2 CONSTRUCTION | 13,151.52 | | - | (13,151.52) | 0.00 |
| 518 2009-2 MAIN AVE CONST | (0.00) | | | | (0.00) |
| 519 2010-2 SDWG/JVG EXT | 0.00 | | | | 0.00 |
| 517 SAFE ROUTES TO SCHOOL | - | | | | - |
| 526 2012-1 PHASE 4 CONSTRUCTION | 9,077.21 | 77,464.70 | 110,673.76 | 24,127.96 | (3.89) |
| 533 STREET IMP 2015-1 | - | 2,015,000.00 | 1,903,174.27 | | 111,825.73 |
| 599 411 MAIN AVENUE | - | | | | - |
| TOTAL CAPITAL PROJECT | 22,228.73 | 2,092,464.70 | 2,013,848.03 | 10,976.44 | 111,821.84 |
| TOTAL FUND BALANCE | 1,169,397.67 | 4,821,739.91 | 4,204,606.42 | (84,361.94) | 1,702,169.22 |
| 501 WATER FUND | 85,258.19 | 536,117.02 | 284,713.67 | (313,011.40) | 23,650.14 |
| 502 WATER CONTINGENCY | 118,121.09 | 6,356.71 | 88,522.85 | 5,493.41 | 41,448.36 |
| 504 SEWER FUND | 75,184.90 | 249,767.45 | 104,773.12 | (190,709.12) | 29,470.11 |
| 505 SEWER CONTINGENCY | 147,641.35 | 826.21 | 36,217.29 | 59,233.87 | 171,484.14 |
| 507 GARBAGE | 66,856.37 | 283,481.93 | 234,311.94 | (47,200.00) | 68,826.36 |
| 508 GARBAGE EQUIP REPLACE | 1,316.82 | 5,380.18 | | 35,000.00 | 41,697.00 |
| 516 2012-1 CONSTRUCTION | (0.00) | | | | (0.00) |
| 528 2014-1 WATER TOWER IMP | 522,029.67 | 349,392.86 | 871,187.57 | | 234.96 |
| 310 2004-1 WATER PROJ PART 2 | 2,770.89 | - | 10,350.00 | 12,000.00 | 4,420.89 |
| 311 2005-2 HOSPITAL WS | 192.91 | - | 31,110.40 | 30,917.49 | - |
| 312 2006-1 WATER IMP | 91,831.53 | 241.62 | 218,327.93 | 212,699.31 | 86,444.53 |
| 315 2010-1 PHASE 2 WATER/SEWER | 112,047.32 | 681.00 | 145,952.00 | 112,938.38 | 79,714.70 |
| 316 2012-1 PHASE 3 WATER/SEWER | 30,098.95 | - | 58,034.00 | 100,000.00 | 72,064.95 |
| 318 WATER TOWER | 24,791.11 | 24,723.35 | 35,689.27 | | 13,825.19 |
| 320 2002 LIFT STATION | 6,823.57 | - | 8,700.00 | 7,000.00 | 5,123.57 |
| 321 2004-1 SEWER PART 1 | 10,225.23 | - | 32,137.50 | 30,000.00 | 8,087.73 |
| 322 2007-3 SEWER IMP | 10,605.33 | - | 16,220.00 | 15,000.00 | 9,385.33 |
| 330 2011 BOND | 102,398.27 | 13,467.23 | 55,541.00 | 15,000.00 | 75,324.50 |
| TOTAL RETAINED EARNINGS | 1,408,193.50 | 1,470,435.56 | 2,231,788.54 | 84,361.94 | 731,202.46 |
| TOTAL FUND BAL & RET EARN | 2,577,591.17 | 6,292,175.47 | 6,436,394.96 | - | 2,433,371.68 |