

CITY OF OAKES
OAKES, NORTH DAKOTA

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

City of Oakes
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CITY OF OAKES
LIST OF OFFICIALS
DECEMBER 31, 2014

CITY COUNCIL

Office

Monty Zimmer	Mayor
Larry Engel	
Jeff Forward	
Dennis Brandriet/Arthur Conklin	
Doug Sitzler/Nathan O'Brien	
Greg Strutz	
Nick Harris	

EMPLOYEES:

Gary Neuharth	City Attorney
April Haring	City Auditor
Marke Roberts	Chief of Police
Pat Nelson	Public Works Director

Harold J. Rotunda

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Governing Board
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, 2014, 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 opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that 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 opinions.

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, 2014, and the changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended, in accordance with the basis of accounting described in Note 1.

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

Required supplementary information

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 opinions 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 expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic 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 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basis financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued reports dated March 2, 2015, on my considerations of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

West Fargo, North Dakota

March 2, 2015

405 West Main Avenue Box 816 West Fargo, ND 58078 Phone (701)281-0483 Cell 212-3908

CITY OF OAKES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014

My discussion and analysis of the City of Oakes's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2014 within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

The City's total revenues exceeded total expenses, on the modified cash basis of accounting, by \$815,739 for the year, resulting in an increase in total net assets of 7 percent over the previous year. Most of the increase is attributed to the City's operation of its governmental activities.

The City's General Fund ended the year with a fund balance of \$9,576, which represents 2 percent of revenue of the Fund.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

Report Components

This annual report consists of five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 11 and 12) provide information about the activities of the City of Oakes government-wide (or "as a whole") and present a longer-term view of the City's finances.

Fund Financial Statements: Fund financial statements (starting on page 37) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the city's most significant ("major") funds. For *governmental activities*, these statements tell how these services were financed in the short term as well as what remains

for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the water, sewer, and sanitation services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the General Fund Budgetary Comparison Schedule (starting on page 35) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report (starting on page 36) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column). This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues, and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

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. Therefore, when reviewing the financial information and discussion within this

annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the City of Oakes City Council is fiscally responsible. These activities, defined as the City's reporting entity, are operated within separate legal entities that make up the primary government.

The primary government includes the following legal entities:

* The City of Oakes

The Government-Wide Statement of Net Assets and the Statement of Activities

My financial analysis of the City as a whole begins on page 11. The government-wide financial statements are presented on pages 14. One of the most important questions asked about the City's finances is, "Is the City as whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City sales tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, general administration, and streets. Property taxes, special assessments, sales taxes, fines, and state and federal grants finance most of these activities.

Business-type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City water, sewer, and sanitation systems are reported here.

Reporting the City's Most Significant Funds

The Fund Financial Statements

My analysis of the City's major funds begins on page 37. The fund financial statements begin on page 38 and provide detailed information about the most significant funds-not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds-*governmental* and *proprietary* use different accounting approaches.

Governmental funds-Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisitions of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. I describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements. The City considers the General Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds-When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the City's proprietary (enterprise) fund financial statements are essentially the same as the business-

type activities I report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. The City only has nine enterprise funds.

The City currently has no fiduciary funds. *Fiduciary funds* are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets-Modified Cash Basis

The City's combined net assets, resulting from modified cash basis transactions, increased from \$12,454,526 to \$13,270,265 between fiscal years 2014 and 2013. Looking at the net assets and net expenses of governmental and business-type activities separately, governmental activities had a larger increase than business-type activities.

	Governmental		Business-type		Total	
	2013	2014	2013	2014	2013	2014
Current	1,312,969	1,169,398	1,051,100	1,408,193	2,364,069	2,577,591
Capital assets	<u>6,018,123</u>	<u>7,350,024</u>	<u>20,163,994</u>	<u>19,744,577</u>	<u>26,182,117</u>	<u>27,094,601</u>
Total assets	<u>7,331,092</u>	<u>8,519,422</u>	<u>21,215,094</u>	<u>21,152,770</u>	<u>28,546,186</u>	<u>29,672,192</u>
Long-term debt	3,511,000	3,196,000	12,580,660	13,205,927	16,091,660	16,401,927
Other liabilities						
Total	<u>3,511,000</u>	<u>3,196,000</u>	<u>12,580,660</u>	<u>13,205,927</u>	<u>16,091,660</u>	<u>16,401,927</u>
Invested in capital, net	2,507,123	4,154,024	7,583,334	6,538,650	10,090,457	10,692,674
Restricted	644,244	731,504	676,286	913,814	1,320,530	1,645,318
Unrestricted	<u>668,725</u>	<u>437,894</u>	<u>374,814</u>	<u>494,379</u>	<u>1,043,539</u>	<u>932,273</u>
Total	<u>3,820,092</u>	<u>5,323,422</u>	<u>8,634,434</u>	<u>7,946,843</u>	<u>12,454,526</u>	<u>13,270,265</u>

Net assets of the City's governmental activities increased 39 percent to \$5,323,422. However, \$4,885,528 of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed \$437,894 at the end of this year.

Changes from 2013 to 2014 reflect a favorable increase of percent in total activities and an increase of 7 percent for governmental activities and 1 percent for business-type activities.

Changes in Net Assets-Modified Cash Basis

For the year ended December 31, 2014 , net assets of the primary government (resulting from modified cash basis transactions) changed as follows:

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Program revenues						
Charges for services			1,031,539	1,031,499	1,031,539	1,031,499
Operating grants						
General revenue						
Property taxes	605,603	583,155	67,228		672,831	583,155
Sales taxes	416,961	428,437			416,961	428,437
Special assessments	207,358	289,354			207,358	289,354
State aid	1,851,851	2,086,184	130,712	6,045	1,982,563	2,092,229
Interest & other	356,407	430,706	46,413	47,389	402,820	478,095
Total revenues	3,438,180	3,817,836	1,275,892	1,084,933	4,714,072	4,902,769
General government	418,875	489,050			418,875	489,050
Public safety	479,291	662,325			479,291	662,325
Highways	151,328	139,470			151,328	139,470
Economic development	109,579	140,743			109,579	140,743
Capital outlay	169,993	50,337	100,217	25,140	270,210	75,477
Debt service	214,257	346,471	294,747	183,249	509,004	529,720
Depreciation	269,023	298,126	1,133,485	1,164,439	1,402,508	1,462,565
Water			277,240	277,045	277,240	277,045
Sewer			83,921	94,171	83,921	94,171
Sanitation			189,067	216,464	189,067	216,464
Other						
Total expense	1,812,346	2,126,522	2,078,677	1,960,508	3,891,023	4,087,030
Excess before transfer	819,420	1,691,314	(802,785)	(875,575)	823,049	815,739
Transfers	(258,821)	(187,984)	7,922,940	187,984		
Increase (decrease) in net assets	560,599	1,503,330	7,120,155	(687,591)	823,049	815,739

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even if restricted for a specific purpose.

For the year ended December 31, 2014 , total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$1,777,346. Of these total expenses, taxpayers and other general revenues funded \$1,777,346, while those directly benefitting from the program funded \$0 from grants and other contributions and \$0 from charges for services.

Business-Type Activities

In reviewing the business-type activities' net (expense)/revenue resulting from modified cash basis transactions, there are certain activities that need to be examined more closely. While the water, sanitation and sewer service activities reported net revenues of \$247,890, \$150,608 and \$69,437, respectively.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Certain funds experienced noteworthy changes from the prior year and are highlighted as follows:

* On the modified cash basis of accounting, the General Fund reported revenues of \$443,215 and expenditures of \$465,679, and net transfers of \$(23,633), resulting in a net decrease in fund balance of \$46,097.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the original budget. For the year ended December 31, 2014 , General Fund expenditures were \$34,967 above final appropriations, while actual resources available for appropriation were \$ 5,081 above the final budgeted amount.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets-Modified Cash Basis

At December 31, 2014 , the City had \$27,094,601 invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. This represents a net increase of \$912,484, or 3 percent, over last year.

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Land	2,284,202	2,284,202	39,895	39,895	2,324,097	2,324,097
Construction	13,864	1,560,833	219,242	497,561	233,106	2,058,394
Infrastructure	3,282,696	3,083,229	16,830,198	15,895,247	20,112,894	18,978,476
Buildings	219,320	205,180	2,998,500	2,863,667	3,217,820	3,068,847
Equipment	218,041	216,580	86,159	448,207	304,200	664,787
Total	6,018,123	7,350,024	20,163,994	19,744,577	26,182,117	27,094,601

Long-Term Debt-Modified Cash Basis

At December 31, 2014 , the City had \$16,401,927 in long-term debt arising from modified cash basis transactions compared to \$16,091,660 at December 31, 2013. At December 31, 2014 , \$3,196,000, of the debt is related to governmental activities and \$13,205,927 related to business-type activities. This represents a net increase of 2 percent.

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Capital leases						
Bonds payable	2,335,000	2,115,000	11,949,438	12,657,817	14,284,438	14,772,817
SRF notes	1,176,000	1,081,000	569,000	517,000	1,745,000	1,598,000
Notes payable			62,222	31,110	62,222	31,110
Total	3,511,000	3,196,000	12,580,660	13,205,927	16,091,660	16,401,927

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the upcoming fiscal year ending December 31, 2014 , the City's budget is fairly consistent with this year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Auditor April Haring.

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

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and investments	1,169,397.67	1,408,193.50	2,577,591.17	
Accounts receivable			-	
Taxes receivable			-	
Intergovernmental receivable			-	
Contract for deed			-	
Capital assets (net of accumulated depreciation)	7,350,024.49	19,744,577.06	27,094,601.55	
Total Assets	8,519,422.16	21,152,770.56	29,672,192.72	-
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	95,000.00	83,110.40	178,110.40	
Due after one year:			-	
Bonds payable	1,855,000.00	12,386,705.02	14,241,705.02	
Notes payable	986,000.00	465,000.00	1,451,000.00	
Total liabilities	3,196,000.00	13,205,927.42	16,401,927.42	-
NET POSITION				
Net investment in capital assets	4,154,024.49	6,538,649.64	10,692,674.13	
Restricted for:			-	
Capital projects	22,228.73	522,029.67	544,258.40	
Debt service	709,275.15	391,785.11	1,101,060.26	
Unrestricted	437,893.79	494,378.72	932,272.51	
Total net position	5,323,422.16	7,946,843.14	13,270,265.30	-

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

CITY OF OAKES
STATEMENT OF ACTIVITIES- MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2014

	Expenses	Program Revenues Charges for Services	Operating grants and Contributions	Revenue & Changes in Net Position Governmental Activities	Component Units
Governmental activities:					
General government	489,050.19			(489,050.19)	
Public safety	662,324.64			(662,324.64)	
Highways and streets	139,469.88			(139,469.88)	
Economic development	140,743.24			(140,743.24)	
Other capital outlays	50,337.10			(50,337.10)	
Interest expense	346,470.67			(346,470.67)	
Depreciation- Unallocated	298,125.89			(298,125.89)	
Total Governmental Activities	2,126,521.61	-	-	(2,126,521.61)	-
Business-type activities					
Water	277,045.02	508,005.57		230,960.55	
Sewer	94,170.69	242,939.76		148,769.07	
Garbage	216,463.92	267,126.34		50,662.42	
Debt	183,249.22	13,427.46		(169,821.76)	
Capital outlay	25,140.18			(25,140.18)	
				-	
				-	
				-	
Depreciation	1,164,439.00			(1,164,439.00)	
Total Business-type activities	1,960,508.03	1,031,499.13	-	(929,008.90)	
Total	4,087,029.64	1,031,499.13	-	(3,055,530.51)	-
Net expense		Governmental (2,126,521.61)	Business-type (929,008.90)	Total (3,055,530.51)	-
General Revenues					
Taxes:					
Property taxes		583,154.68	-	583,154.68	
Sales taxes		428,437.16		428,437.16	
Special assessments		289,353.89		289,353.89	
Licenses and permits		14,202.94		14,202.94	
Intergovernmental		2,086,184.16	6,045.00	2,092,229.16	
Interest income		1,367.45	8,384.79	9,752.24	
Other revenue		415,135.55	39,004.08	454,139.63	
Total General Revenues		3,817,835.83	53,433.87	3,871,269.70	-
Transfers in (out)		(187,984.41)	187,984.41	-	
Change in Net Position		1,503,329.81	(687,590.62)	815,739.19	-
Net Position- January 1		3,820,092.35	8,634,433.76	12,454,526.11	-
Net Position- December 31		5,323,422.16	7,946,843.14	13,270,265.30	-

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

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

	GENERAL	AIRPORT	CONSTRUCTION 2012-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	9,575.81	4,751.21	-	1,155,070.65	1,169,397.67
Accounts receivable					-
Taxes receivable					-
Special assessment receivable					-
Intergovernmental receivable					-
Total Assets	9,575.81	4,751.21	-	1,155,070.65	1,169,397.67
LIABILITIES					
Accounts Payable					-
Salaries and benefits payable					-
Deferred revenue	-			-	-
Total liabilities	-	-	-	-	-
FUND BALANCE					
Restricted for Capital Projects		-	-	22,826.38	22,826.38
Restricted for Debt Service		4,751.21		621,417.58	626,168.79
Restricted for other purposes				556,623.19	556,623.19
Unassigned	9,575.81			(45,796.50)	(36,220.69)
Total fund balance	9,575.81	4,751.21	-	1,155,070.65	1,169,397.67
Total liabilities and fund balance	9,575.81	4,751.21	-	1,155,070.65	1,169,397.67

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, 2014

Total Fund Balances for Governmental Funds	1,169,397.67
--------------------------------------------	--------------

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	8,425,377.07	
Less accumulated depreciation	2,407,254.00	
Net capital assets		6,018,123.07

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	(2,335,000.00)
SRF Notes payable	(1,176,000.00)
Notes payable	-

Total Net Position of Governmental Activities	3,676,520.74
-----------------------------------------------	--------------

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, 2014

	GENERAL	AIRPORT	CONSTRUCTION 2012-1	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Property taxes	178,442.14	12,789.74		391,922.80	583,154.68
Sales taxes				428,437.16	428,437.16
Special Assessments				289,353.89	289,353.89
Intergovernmental	283,747.12	1,553,341.75	-	249,095.29	2,086,184.16
Interest	-		-	1,367.45	1,367.45
Charges for services	10,700.27	5,625.00		263,387.21	279,712.48
Other	50,314.98	124.28		99,186.75	149,626.01
Total Revenues	523,204.51	1,571,880.77	-	1,722,750.55	3,817,835.83
Current:					
General government	217,553.52			293,613.27	511,166.79
Public safety	307,667.53	110,728.64		270,721.47	689,117.64
Highways and streets				159,754.88	159,754.88
Economic development				149,245.24	149,245.24
Other capital outlays		1,517,656.85	-	258,512.96	1,776,169.81
Debt Service					
Principal			-	446,833.22	446,833.22
Interest expense			-	214,637.45	214,637.45
Total Expenditures	525,221.05	1,628,385.49	-	1,793,318.49	3,946,925.03
Excess revenues (expenditures)	(2,016.54)	(56,504.72)	-	(70,567.94)	(129,089.20)
Other Financing Sources (Uses):					
Transfers in	42,300.00	-	-	479,254.08	521,554.08
Transfers out	(89,316.50)	-	-	(446,719.99)	(536,036.49)
Bond proceeds		-	-	-	-
Total other financing sources and uses	(47,016.50)	-	-	32,534.09	(14,482.41)
Net change in fund balances	(49,033.04)	(56,504.72)	-	(38,033.85)	(143,571.61)
Fund balance- beginning	58,608.85	61,255.93	-	1,193,104.50	1,312,969.28
Fund balance- ending	9,575.81	4,751.21	-	1,155,070.65	1,169,397.67

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, 2014

Net Change in Fund Balances- Total Governmental Funds (143,571.61)

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	1,774,065.35	
Current year depreciation expense	-	1,774,065.35

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. (280,046.86)
 1,275,815.86

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. (8,460,408.99)

Change in Net Position of Governmental Activities (5,834,146.25)

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, 2014

	Water	Sewer	Sanitation	Other	Total
ASSETS					
Cash and investments	203,379.28	222,826.25	68,173.19	913,814.78	1,408,193.50
Accounts receivable					-
Taxes receivable					-
Intergovernmental receivable					-
Due from County Treasurer					-
Capital assets (net of accumulated depreciation)				19,744,577.06	19,744,577.06
Total Assets	203,379.28	222,826.25	68,173.19	20,658,391.84	21,152,770.56
LIABILITIES					
Accounts Payable					-
Salaries and benefits payable					-
Deferred revenue					-
Long-term liabilities:					
Due within one year:					
Bonds payable					-
Notes payable					-
Due after one year:					
Bonds payable				13,205,927.42	13,205,927.42
Notes payable					-
Total liabilities	-	-	-	13,205,927.42	13,205,927.42
NET POSITION					
Net investment in capital assets	-	-	-	6,538,649.64	6,538,649.64
Restricted for:					
Capital projects				-	-
Debt service				-	-
Unrestricted	203,379.28	222,826.25	68,173.19	913,814.78	1,408,193.50
Total net position	203,379.28	222,826.25	68,173.19	7,452,464.42	7,946,843.14

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, 2014

	Water	Sewer	Sanitation	Other	Total
OPERATING REVENUE					
Charges for services	508,005.57	242,939.76	267,126.34	13,427.46	1,031,499.13
OPERATING EXPENSES					
Salaries	104,818.64	52,354.69	51,785.17		208,958.50
Benefits	17,884.68	16,667.14	17,542.51		52,094.33
Equipment					-
Contract services			72,049.40		72,049.40
Electricity	43,965.98	5,735.48			49,701.46
Supplies	82,939.68	1,918.24	28,229.42		113,087.34
Repairs and maintenance	19,486.62	14,916.59	42,002.18	-	76,405.39
Insurance	48.35	205.00	3,001.00		3,254.35
Office expense	35.64		564.20		599.84
Depreciation				1,164,439.00	1,164,439.00
Miscellaneous	7,865.43	2,373.55	1,290.04		11,529.02
Total operating expenses	277,045.02	94,170.69	216,463.92	1,164,439.00	1,752,118.63
Operating income (loss)	230,960.55	148,769.07	50,662.42	(1,151,011.54)	(720,619.50)
NON-OPERATING REVENUE (EXPENSE)					
Property taxes					-
Interest income	6,955.00	463.74		966.05	8,384.79
Grant income				6,045.00	6,045.00
Interest expense				(183,249.22)	(183,249.22)
Capital outlay	(10,933.64)	(14,206.57)	(62,550.00)	62,550.03	(25,140.18)
Other	3,200.19	705.00	9,207.81	25,891.08	39,004.08
Total non-operating rev (exp)	(778.45)	(13,037.83)	(53,342.19)	(87,797.06)	(154,955.53)
Income (loss) before transfers	230,182.10	135,731.24	(2,679.77)	(1,238,808.60)	(875,575.03)
Transfers in	25,180.00	54,847.40	35,000.00	528,608.28	643,635.68
Transfers out	(193,821.00)	(143,821.00)	(47,200.00)	(70,809.27)	(455,651.27)
Change in net position	61,541.10	46,757.64	(14,879.77)	(781,009.59)	(687,590.62)
Net Position- January 1	141,838.15	176,068.61	83,052.96	8,233,474.04	8,634,433.76
Net Position- December 31	203,379.25	222,826.25	68,173.19	7,452,464.45	7,946,843.14

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, 2014

	Water	Sewer	Sanitation	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	508,005.57	242,939.76	267,126.34	13,427.46	1,031,499.13
Payments to suppliers	(172,226.38)	(41,816.00)	(164,678.75)		(378,721.13)
Payments to employees	(104,818.64)	(52,354.69)	(51,785.17)		(208,958.50)
Other receipts	3,200.19	705.00	9,207.81	31,936.08	45,049.08
Net cash provided by (used in) opera	234,160.74	149,474.07	59,870.23	45,363.54	488,868.58
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	25,180.00	54,847.40	35,000.00	355,106.28	470,133.68
Transfers to other funds	(193,821.00)	(143,821.00)	(47,200.00)	(70,809.27)	(455,651.27)
Net cash provided by (used in) nonca	(168,641.00)	(88,973.60)	(12,200.00)	284,297.01	14,482.41
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(10,933.64)	(14,206.57)	(62,550.00)	(508,970.15)	(596,660.36)
Principal paid on capital debt	-	-	-	(395,827.38)	(395,827.38)
Interest paid on capital debt	-	-	-	(183,249.22)	(183,249.22)
Debt proceeds				1,021,095.00	1,021,095.00
Net cash provided by (used in) capita	(10,933.64)	(14,206.57)	(62,550.00)	(66,951.75)	(154,641.96)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	6,955.00	463.74	-	966.05	8,384.79
Net cash provided by (used in) invest	6,955.00	463.74	-	966.05	8,384.79
Net increase (decrease) in cash	61,541.10	46,757.64	(14,879.77)	263,674.85	357,093.82
Balance- beginning of year	141,838.15	176,068.61	83,052.96	650,139.93	1,051,099.65
Balance- end of year	203,379.25	222,826.25	68,173.19	913,814.78	1,408,193.47
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	230,960.55	148,769.07	50,662.42	(1,151,011.54)	(720,619.50)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	-	-	-	1,164,439.00	1,164,439.00
Change in assets and liabilities:					
Refundable deposits					-
Miscellaneous receipts (expense)	3,200.19	705.00	9,207.81	31,936.08	45,049.08
Net cash provided by operating activ.	234,160.74	149,474.07	59,870.23	45,363.54	488,868.58

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

CITY OF OAKES
OAKES, NORTH DAKOTA

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 also reports the following fund types:
Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City.

Capital Projects Funds. Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items.

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.

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.

CITY OF OAKES

Notes to Financial Statements- Continued

All governmental funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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, special revenue, and debt service funds 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 the first day of October. 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 and Investments

Cash includes amounts in demand deposits and money market accounts.

Investments consist of certificates of deposits 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 2014. The budget amendments are detailed in the attached schedule on page 40.

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, 2014, the City's carrying amount of deposits was \$2,389,376. Of the bank balances, \$250,000 was covered by Federal Depository Insurance. The remaining balance of \$2,139,376 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: TAXES RECEIVABLE

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: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account for goods and services furnished by the City. No allowance has been established for uncollectible accounts.

NOTE 6: TRANSFERS

The City transfers operating revenues between funds. The City also transferred the construction cost of \$12,826,188 and the related debt of \$4,985,779 from the construction fund to the enterprise fund. A schedule of the operating transfers is on page 39.

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 7: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2014:

	Balance January 1	Increases	Decreases	Balance December 31
Construction in progress	23,684	1,560,833	23,864	1,560,833
Land	2,284,202			2,284,202
Total	2,308,066	1,560,833	23,864	3,845,035
Capital assets, being depreciated				
Governmental activities				
Bldgs and Improvements	1,028,832			1,028,832
Vehicles & Equipment	1,116,757	69,195		1,185,952
Infrastructure	3,971,722			3,971,722
Total Cap Assets	6,117,311	69,195		6,186,506
Less accumulated depreciation for:				
Buildings & Improve	770,880	14,140		785,020
Vehicles & Equip	908,715	60,656		969,371
Infrastructure	727,658	199,466		927,125
Total Accumulated Dep	2,407,253	274,262		2,681,516
Total Cap Assets, Net	3,710,058			3,504,990
Total Cap Assets, Net	6,018,124			7,350,025
Construction in progress	219,242	508,970	230,651	497,561
Land	39,895			39,895
Total	259,137	508,970	230,651	537,456
Capital assets, being depreciated				
Business-type activities				
Bldgs and Improvements	4,825,342			4,825,342
Vehicles & Equipment	349,430	236,052		585,482
Infrastructure	18,560,392	230,651		18,791,043
Total Cap Assets	23,735,164	466,703		24,201,867
Less accumulated depreciation for:				
Buildings & Improve	1,610,790	142,675		1,753,465
Vehicles & Equip	263,273	82,212		345,485
Infrastructure	1,956,244	939,552		2,895,796
Total Accumulated Dep	3,830,309	1,164,439		4,994,746
Total Cap Assets, Net	19,904,855			19,207,121
Total Cap Assets, Net	20,163,992			19,744,577

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

Governmental Activities:	
General government	36,135
Public safety	10,007
Street	222,818
Total	274,262

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 8: LONG-TERM DEBT

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

	Payable 2013	Increases	Decreases	Payable 2014	Due Within One Year
GOVERNMENTAL ACTIVITIES					
USDA Loan					
Bonds Payable	2,335,000		220,000	2,115,000	95,000
SRF Notes	1,176,000		95,000	1,081,000	83,000
TOTAL	3,511,000		,315,000	3,196,000	
BUSINESS-TYPE ACTIVITIES					
USDA Loan	11,364,438	1,021,095	272,716	12,112,817	63,653
Bonds Payable	585,000		40,000	545,000	3,105
SRF Notes	569,000		52,000	517,000	45,000
Notes payable	62,222		31,112	31,110	31,111
TOTAL	12,580,660	1,021,095	395,828	13,205,927	

BONDS PAYABLE

Bonds payable consist of the following:

	Maturity Date	Interest Rate	Balance Outstanding
GOVERNMENTAL ACTIVITIES			
Refunding imp bonds- 2007	11/01/2023	4.00-4.30%	560,000
Refunding imp bonds- 2007	05/01/2022	4.00-4.25%	215,000
Refunding imp bonds- 2004	05/01/2018	3.10-6.00%	125,000
Refunding imp bonds- 2013	05/01/2025	1.5%	1,215,000
Total			2,115,000
Refunding imp bonds- 2014	05/01/2026	1.80-3.40%	545,000
Bank of ND	11/01/2038	3.00%	121,056
USDA bond	05/01/2046	3.25%	1,122,865
USDA bond	05/01/2041	3.75%	2,596,757
USDA bond	05/01/2047	3.75%	2,989,299
USDA bond	05/01/2043	2.75%	1,733,588
USDA bond	05/01/2040	3.00%	2,528,157
USDA bond	05/01/2040	3.00%	1,021,095
Total			12,657,817

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%	680,000
Water treatment bonds-1995	03/01/2023	2.5%	100,000
Water treatment bonds-1995	03/01/2022	2.5%	396,000
Total			1,176,000
BUSINESS-TYPE ACTIVITIES			
Water Treatment-1998	09/01/2023	2.5%	265,000
Water treatment bonds-1995	03/01/2023	2.5%	87,000
Water treatment bonds-1995	03/01/2017	2.5%	32,000
Water treatment bonds-1995	03/01/2027	2.5%	185,000
Total			569,000

The annual long-term debt service requirements for bonds payable, as of December 31, 2014, are as follows:

GOVERNMENTAL ACTIVITIES

Year Ending December 31	Bonds Payable		SRF Notes Payable	
	Principal	Interest	Principal	Interest
2014	220,000	74,935	95,000	29,400
2015	215,000	68,845	96,000	27,025
2016	225,000	62,455	97,000	24,625
2017	225,000	55,263	102,000	22,200
2018	230,000	47,620	104,000	19,650
2019-2023	1,010,000	131,746	502,000	58,300
2024-2027	210,000	6,825	180,000	9,000
TOTAL	2,335,000	447,689	1,176,000	190,200
2014	311,112	395,216	52,000	14,225
2015	320,026	385,582	52,000	12,925
2016	329,229	375,659	53,000	11,625
2017	343,761	365,362	53,000	10,300
2018	353,603	354,710	45,000	8,975
2019-2023	1,927,659	1,595,006	254,000	27,075
2024-2028	2,153,608	1,260,231	60,000	3,750
2029-2033	2,359,119	897,171		
2034-2038	2,547,302	497,840		
2039-2043	1,304,019	86,715		
TOTAL	11,949,438	6,213,491	569,000	88,875

CITY OF OAKES
Notes to Financial Statements- Continued

The City has a note payable with Dakota Valley Electric. The note is due in annual installments of \$31,111.20, including interest at 0%, through April 2015. The note was used to finance a project. The balance at year end is \$62,222.

NOTE 9. RESERVED OR DESIGNATED FUND EQUITY

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

Reserved:

Police vehicle replacement	11,472
Public works building	1,147
Water contingency	118,121
Sewer contingency	75,185
Garbage equipment replacement	<u>1,317</u>
Total	207,242

Designated:

Debt Service fund-	
Designated for debt service	709,275

CITY OF OAKES
Notes to Financial Statements- Continued

NOTE 11: PENSION PLANS

The City contributes to the North Dakota Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. PERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to ND PERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 7% of their annual covered salary and the City is required to contribute 8.26% of the employee's salary. The contribution requirements of plan members and the City are established and may be amended by the State legislature. The City's contributions to PERS for the fiscal years ending December 31, 2014, 2013, and 2012 were \$95,755, \$70,978, and \$54,225, respectively, equal to the required contributions for the year.

NOTE 12: 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 (NDRIF), 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 NDRIF for its general liability and automobile insurance coverage. The coverage by NDRIF 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
 BUDGETARY COMPARISON SCHEDULE- GENERAL FUND
 YEAR ENDED DECEMBER 31, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Property taxes	160,967.08	160,967.08	178,442.14	17,475.06
Sales taxes			-	-
Special Assessments			-	-
Intergovernmental	237,860.00	237,860.00	283,747.12	45,887.12
Interest			-	-
Charges for services	10,000.00	10,000.00	10,700.27	700.27
Other	41,620.00	41,620.00	50,314.98	8,694.98
Total Revenues	450,447.08	450,447.08	523,204.51	72,757.43
Current:				
General government	216,654.52	216,654.52	217,553.52	(899.00)
Public safety	323,554.02	323,554.02	307,667.53	15,886.49
Highways and streets			-	-
Economic development			-	-
Other capital outlays			-	-
Debt Service				
Principal				
Interest expense				
Total Expenditures	540,208.54	540,208.54	525,221.05	14,987.49
Excess revenues (expenditures)	(89,761.46)	(89,761.46)	(2,016.54)	87,744.92
Other Financing Sources (Uses):				
Transfers in	54,800.00	54,800.00	42,300.00	(12,500.00)
Transfers out	(20,320.00)	(20,320.00)	(89,316.50)	(68,996.50)
Bond proceeds			-	
Total other financing sources and uses	34,480.00	34,480.00	(47,016.50)	(81,496.50)
Net change in fund balances	(55,281.46)	(55,281.46)	(49,033.04)	6,248.42
Fund balance- January 1	58,608.85	58,608.85	58,608.85	
Fund balance- December 31	3,327.39	3,327.39	9,575.81	6,248.42

Note 1.
 Budgets are prepared on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with the modified cash basis of accounting. All appropriations lapse at year end. Encumbrance accounting is not utilized by the City. The budget is adopted through formal approval by the Council. Any revisions to the budget must be approved by the Council.

CITY OF OAKES
 FUND BALANCE
 DECEMBER 31, 2014

	BEGINNING BALANCE	REVENUE	EXPENSE	TRANSFERS IN (OUT)	ENDING BALANCE
100 GENERAL FUNDS	58,608.85	523,204.51	525,221.05	(47,016.50)	9,575.81
201 STREET FUND	216,671.72	175,266.35	159,754.88	(120,200.00)	111,983.19
202 SOCIAL SECURITY FUND	8,305.13	35,464.72	40,184.27	3,200.00	6,785.58
203 RETIREMENT	1,188.21	20,630.05	71,214.69	53,000.00	3,603.57
205 ADVERTISING FUND	20,256.12	14,040.25	8,256.05		26,040.32
206 EMERGENCY FUND	11,637.90	3,368.38			15,006.28
207 FORESTRY	264.78	19,235.30	37,401.58	18,000.00	98.50
208 CEMETERY	3,771.95	9,387.79	18,013.01	4,900.00	46.73
209 ARMORY	-	35,514.75	47,071.81	21,700.00	10,142.94
210 PERPETUAL CEMETERY	73,062.31	4,086.27	3,004.25	(1,900.00)	72,244.33
215 SALES TAX- POOL	-	107,109.31	25,000.00	(82,109.31)	-
216 SALES TAX- CITY	77,927.98	107,109.33	15,352.00	(124,200.00)	45,485.31
217 SALES TAX- OEI	9,564.74	107,109.24	108,893.24		7,780.74
218 SALES TAX- INFRASTRUCTURE	-	107,109.28		(107,109.28)	-
220 PUBLIC SAFETY GRANT		13,250.00	22,525.83	15,000.00	5,724.17
221 POLICE VEHICLE REPLACEMENT	28,265.06	1,000.00	32,793.00	15,000.00	11,472.06
222 GENERAL BUILDING RESERVE	4,993.22		773.10	1,320.00	5,540.12
223 PUBLIC WORKS BUILDING RES	1,567.87		421.12		1,146.75
224 PUBLIC WORKS EQUIPMENT	58,257.51	31,127.02	195,989.66	112,000.00	5,394.87
230 VENTURE/OAKES DEVELOP	55,805.46	402.59			56,208.05
250 CITY SHOP	5,509.32		35,129.39	40,000.00	10,379.93
801 FLEX MEDICAL SPENDING	(0.00)	10,899.98	10,899.92		0.06
802 FLEX DEPENDENT CARE	0.10	4,979.00	4,979.00		0.10
902 AIRPORT	61,255.93	1,571,880.77	1,628,385.49		4,751.21
904 AMBULANCE	9,303.32	247,597.13	237,928.47		18,971.98
906 LIBRARY	8,304.34	18,118.15	16,911.30		9,511.19
340 2010-2 SDWG/JVG EXT	62,277.34	281,279.77	315,304.82		28,252.29
302 2003-3 STREET	24,641.68	10,280.84	10,519.21		24,403.31
303 PILOT DRAIN PROJECT ASSMT	208.36	2,699.03	1,664.53		1,242.86
313 2009-2 PHASE I W/S IMP	9,521.29	19,221.72	21,561.47		7,181.54
314 2009-2 PHASE I W/S IMP	406,945.07	186,011.06	143,937.79		449,018.34
317 2012-2 PHASE 4 WATER/SEWER		100,498.24	86,172.85	67,228.27	81,553.66
350 POOL PROJECT	117,823.84		82,310.00	82,109.31	117,623.15
515 2010-1 PHASE 2 CONSTRUCTION	13,150.52	1.00			13,151.52
526 2012-1 PHASE 4 CONSTRUCTION	9,675.86	49,954.00	39,351.25	(11,201.40)	9,077.21
599 411 MAIN AVENUE	(45,796.50)			45,796.50	-
TOTAL FUND BALANCE	1,312,969.28	3,817,835.83	3,946,925.03	(14,482.41)	1,169,397.67

CITY OF OAKES
 FUND BALANCE
 DECEMBER 31, 2014

	BEGINNING BALANCE	REVENUE	EXPENSE	TRANSFERS IN (OUT)	ENDING BALANCE
501 WATER FUND	43,339.63	511,250.58	277,045.02	(192,287.00)	85,258.19
502 WATER CONTINGENCY	98,498.52	6,910.18	10,933.61	23,646.00	118,121.09
504 SEWER FUND	29,343.96	243,832.73	94,170.79	(103,821.00)	75,184.90
505 SEWER CONTINGENCY	146,724.65	275.87	14,206.57	14,847.40	147,641.35
507 GARBAGE	58,052.96	272,467.33	216,463.92	(47,200.00)	66,856.37
508 GARBAGE EQUIP REPLACE	25,000.00	3,866.82	62,550.00	35,000.00	1,316.82
516 2012-1 CONSTRUCTION	4,340.31	6,045.69	11,409.50	1,023.50	(0.00)
528 2014-1 WATER TOWER IMP		1,021,124.32	497,560.65	(1,534.00)	522,029.67
310 2004-1 WATER PROJ PART 2	4,360.89		10,590.00	9,000.00	2,770.89
311 2005-2 HOSPITAL WS	1,304.11		31,111.20	30,000.00	192.91
312 2006-1 WATER IMP	217,223.42	936.04	218,327.93	92,000.00	91,831.53
315 2010-1 PHASE 2 WATER/SEWER	136,709.04	681.00	145,952.00	120,609.28	112,047.32
316 2012-1 PHASE 3 WATER/SEWER	97,934.72		58,034.00	(9,801.77)	30,098.95
318 WATER TOWER		25,210.08	418.97		24,791.11
320 2002 LIFT STATION	10,763.57		8,940.00	5,000.00	6,823.57
321 2004-1 SEWER PART 1	33,112.73		32,887.50	10,000.00	10,225.23
322 2007-3 SEWER IMP	17,155.33		16,550.00	10,000.00	10,605.33
330 2011 BOND	127,235.81	13,427.46	56,265.00	18,000.00	102,398.27
TOTAL RETAINED EARNINGS	1,051,099.65	2,106,028.10	1,763,416.66	14,482.41	1,408,193.50
TOTAL FUND BAL & RET EARN	2,364,068.93	5,923,863.93	5,710,341.69	0.00	2,577,591.17

CITY OF OAKES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

<u>Federal Grantor/Pass-through</u> <u>Grantor/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Expenses</u>
U.S. Department of Agriculture-		
Water and Waste Disposal System	10.760	6,045
Water and Waste Disposal System	10.760	49,954
Water and Waste Disposal System	10.760	<u>499,095</u>
Total		<u>555,094</u>
U.S. Department of Justice-		
Passed through North Dakota		
Attorney General		
Community policing	16.710	<u>6,343</u>
Total		<u>6,343</u>
U.S. Department of Transportation-		
Direct Assistance		
Airport improvement grant	20.106	1,381,856
Passed through North Dakota		
Department of Transportation		
Alcohol traffic safety	20.601	5,729
State & community safety	20.600	<u>2,275</u>
Total department of transportation		<u>1,389,860</u>
U.S. Department of Homeland Security-		
Passed through North Dakota		
Department of Emergency Services		
State homeland security grant	97.067	<u>2,773</u>
Total department of homeland security		<u>2,773</u>
Total expenditures of federal awards		2,010,870 =====

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is prepared on the modified cash basis of accounting.

Harold J. Rotunda

Certified Public Accountant

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*

Independent Auditor's Report

To the Governing Board
City of Oakes
Oakes, North Dakota

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Oakes as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise basic financial statements, and have issued my report thereon dated March 2, 2015.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies [2014-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Oakes's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

City of Oakes' Responses to Findings

The City of Oakes' response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. The City of Oakes' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Harold Rotunda, CPA
March 2, 2015

Harold J. Rotunda

Certified Public Accountant

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

To the Governing Board
City of Oakes
Oakes, North Dakota

Report on Compliance for Each Major Federal Program

I have audited City of Oakes' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Oakes' major federal programs for the year ended December 31, 2014. City of Oakes' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of City of Oakes' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Oakes' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of City of Oakes' compliance.

Opinion on Each Major Federal Program

In my opinion, the City of Oakes complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the City of Oakes is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered City of Oakes' internal control, over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of City of Oakes' internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Harold Rotunda, CPA
March 2, 2015

CITY OF OAKES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?

Governmental Activities		Unmodified
Major Funds		Unmodified
Aggregate Remaining Fund Information		Unmodified

Internal Control over financial reporting:

Material weaknesses identified?	_____	Yes	___X___	No
Significant deficiencies identified not Considered to be material weaknesses?	___X___	Yes	_____	No
Noncompliance material to financial statements Noted?	_____	Yes	___X___	No

Federal Awards

Internal Control over major programs:

Material weaknesses identified?	_____	Yes	___X___	No
Reportable conditions identified not considered To be material weaknesses?	_____	Yes	___X___	None

Type of auditor's report issued on compliance for
 Major programs:

Unmodified

Any audit findings disclosed that are required to be
 Reported in accordance with Circular A-133,
 Section 510(a)?

_____ Yes ___X___ No

Identification of major programs:

CFDA Numbers	Name of Federal Program Or Cluster
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10.760	Water and Waste Disposal Systems
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Dollar threshold used to distinguish between Type

A and B programs: \$300,000

Auditee qualified as low-risk auditee?

_____ Yes ___X___ No

CITY OF OAKES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Section II- Financial Statement Findings

Finding No. 2014-1

Condition

The limited number of staff prevents a proper segregation of duties.

Criteria

A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect of Condition

Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation

While I recognize that the City office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the City.

Response

At the present time, the City has segregated the duties of all key accounting personnel in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.