

CITY OF VELVA

AUDIT REPORT

December 31, 2013

**CITY OF VELVA
VELVA, NORTH DAKOTA**

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For The Year Ended December 31, 2013

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CITY OF VELVA

CITY OFFICIALS

December 31, 2013

Ken Fox	Mayor/President
Scott Blotter	Vice President
James Anderson	Commissioner
J.D. Larson	Commissioner
Darren Johnson	Commissioner
Carol Bickler	City Auditor

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Velva
Velva, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, North Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, North Dakota as of December 31, 2013, and the respective changes in financial position, and, where applicable, cash flows – modified cash basis thereof for the year then ended in conformity with the modified cash basis of accounting.

INDEPENDENT AUDITOR'S REPORT

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 26 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 on our consideration of the City of Velva's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Velva's internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
September 28, 2018

CITY OF VELVA
Statement of Net Position - Modified Cash Basis
December 31, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 672,838	\$ 496,080	\$ 1,168,918
Investments	235,813	-	235,813
Total Current Assets	908,651	496,080	1,404,731
Capital Assets:			
Infrastructure	1,240,522	2,845,077	4,085,599
Buildings	972,241	23,400	995,641
Equipment	357,914	71,631	429,545
Accumulated Depreciation	(1,143,633)	(545,947)	(1,689,580)
Total Capital Assets	1,427,044	2,394,161	3,821,205
TOTAL ASSETS	2,335,695	2,890,241	5,225,936
LIABILITIES			
Long-Term Liabilities:			
Portion Due or Payable within One Year			
Improvement Bonds Payable	20,000	-	20,000
Loans Payable	22,239	-	22,239
General Obligation Bonds	31,666	-	31,666
Water State Revolving Bonds Payable	-	15,000	15,000
Special Assessment Bonds Payable	-	85,000	85,000
Portion Due or Payable after One Year			
Improvement Bonds Payable	25,000	-	25,000
Loans Payable	71,648	-	71,648
General Obligation Bonds	488,334	-	488,334
Water State Revolving Bonds Payable	-	285,000	285,000
Special Assessment Bonds Payable	-	585,000	585,000
Compensated Absences Payable	13,435	-	13,435
TOTAL LIABILITIES	672,322	970,000	1,642,322
NET POSITION			
Net Investment in Capital Assets	768,157	1,424,161	2,192,318
Restricted for:			
Debt Service	88,949	147,119	236,068
Special Purposes	975,600	-	975,600
Unrestricted	(169,333)	348,961	179,628
TOTAL NET POSITION	\$ 1,663,373	\$ 1,920,241	\$ 3,583,614

CITY OF VELVA
Statement of Activities - Modified Cash Basis
For the year ended December 31, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue & Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
<u>Governmental Activities</u>							
General Government	\$ 274,099	\$ 12,477	\$ -	\$ -	\$ (261,622)		\$ (261,622)
Public Safety	86,364	-	-	-	(86,364)		(86,364)
Highways and Streets	133,964	-	219,971	-	86,007		86,007
Health and Welfare	9,247	-	-	-	(9,247)		(9,247)
Culture and Recreation	5,435	-	-	-	(5,435)		(5,435)
Economic Development	49,154	-	-	-	(49,154)		(49,154)
Miscellaneous	112,770	-	27,692	-	(85,078)		(85,078)
Interest on Long-Term Debt	22,817	-	-	-	(22,817)		(22,817)
Total Governmental Activities	<u>693,850</u>	<u>12,477</u>	<u>247,663</u>	<u>-</u>	<u>(433,710)</u>		<u>(433,710)</u>
<u>Business-type Activities</u>							
Water & Sewer	277,474	253,393	-	-		\$ (24,081)	(24,081)
Garbage	67,239	61,111	-	-		(6,128)	(6,128)
Water Improvement District 2005-1	57,916	-	-	176,262		118,346	118,346
Nonmajor Enterprise Funds	-	5,542	-	-		5,542	5,542
Total Business-type Activities	<u>402,629</u>	<u>320,046</u>	<u>-</u>	<u>176,262</u>		<u>93,679</u>	<u>93,679</u>
Total Primary Government	<u>\$ 1,096,479</u>	<u>\$ 332,523</u>	<u>\$ 247,663</u>	<u>\$ 176,262</u>	<u>(433,710)</u>	<u>93,679</u>	<u>(340,031)</u>
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purpose					162,096	-	162,096
Property Taxes, Levied for Special Reserve					48,339	-	48,339
City Sales Tax					197,808	-	197,808
Oil and Gas Tax					6,300	-	6,300
Intergovernmental Revenue, Unrestricted					571,379	-	571,379
Interest Income					9,154	-	9,154
Miscellaneous Revenue					23,273	-	23,273
Transfers					34,063	(34,063)	-
Total General Revenues and Transfers					<u>1,052,412</u>	<u>(34,063)</u>	<u>1,018,349</u>
Change in Net Position					618,702	59,616	678,318
Net Position - January 1					<u>1,044,671</u>	<u>1,860,625</u>	<u>2,905,296</u>
Net Position - December 31					<u>\$ 1,663,373</u>	<u>\$ 1,920,241</u>	<u>\$ 3,583,614</u>

CITY OF VELVA
 Balance Sheet - Modified Cash Basis - Governmental Funds
 December 31, 2013

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General	Road & Bridge	Sales Tax - Water & Sewer		
ASSETS					
Cash and Cash Equivalents	\$ 510	\$ 257,883	\$ 194,031	\$ 220,414	\$ 672,838
Investments	-	-	118,854	116,959	235,813
Due from Other Funds	6,707	-	-	-	6,707
TOTAL ASSETS	\$ 7,217	\$ 257,883	\$ 312,885	\$ 337,373	\$ 915,358
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ 6,707	\$ 6,707
Fund Balances:					
Restricted for:					
Debt Service	-	-	-	88,949	88,949
Assigned for Special Revenue	-	257,883	312,885	404,832	975,600
Unassigned	7,217	-	-	(163,115)	(155,898)
Total Fund Balances	7,217	257,883	312,885	330,666	908,651
TOTAL FUND BALANCES	\$ 7,217	\$ 257,883	\$ 312,885	\$ 337,373	\$ 915,358

CITY OF VELVA

Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position - Modified Cash Basis
December 31, 2013

Total Fund Balance for Governmental Funds \$ 908,651

Total net position reported for government activities in the statement of net position is different because:

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

Cost of Capital Assets	\$ 2,570,677	
Less Accumulated Depreciation	<u>(1,143,633)</u>	
Net Capital Assets		1,427,044

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Long-term liabilities, both current and long-term, are reported in the statement of net position. Balances at December 31, 2013 are:

Improvement Bonds Payable	(45,000)	
Loans Payable	(93,887)	
General Obligation Bonds	(520,000)	
Compensated Absences	<u>(13,435)</u>	
Total Long-Term Liabilities		<u>(672,322)</u>

Total Net Position of Governmental Activities \$ 1,663,373

CITY OF VELVA
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis - Governmental Funds
For the year ended December 31, 2013

	Major Funds				
	General	Road & Bridge	Sales Tax - Water & Sewer	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 162,096	\$ -	\$ -	\$ 48,339	\$ 210,435
Licenses, Permits, and Fees	11,402	-	-	-	11,402
Intergovernmental	100,409	219,971	-	504,962	825,342
Charges for Services	1,075	-	-	-	1,075
Sales Tax	-	-	91,883	105,925	197,808
Interest	9,154	-	-	-	9,154
Miscellaneous	2,384	-	-	20,889	23,273
TOTAL REVENUES	<u>286,520</u>	<u>219,971</u>	<u>91,883</u>	<u>680,115</u>	<u>1,278,489</u>
EXPENDITURES					
Current:					
General Government	277,985	-	-	-	277,985
Public Safety	81,700	-	-	790	82,490
Highways and Streets	-	150,510	-	13,322	163,832
Health and Welfare	-	-	-	9,247	9,247
Culture and Recreation	-	-	-	1,822	1,822
Economic Development	-	-	-	49,154	49,154
Other	-	-	-	540,854	540,854
Debt Service:					
Principal	-	-	15,304	49,616	64,920
Interest	-	-	4,672	18,145	22,817
TOTAL EXPENDITURES	<u>359,685</u>	<u>150,510</u>	<u>19,976</u>	<u>682,950</u>	<u>1,213,121</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(73,165)</u>	<u>69,461</u>	<u>71,907</u>	<u>(2,835)</u>	<u>65,368</u>
OTHER FINANCING SOURCES (USES)					
Bond Proceeds	-	-	-	27,381	27,381
Transfers In (Out)	(4,000)	-	(11,012)	49,075	34,063
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,000)</u>	<u>-</u>	<u>(11,012)</u>	<u>76,456</u>	<u>61,444</u>
NET CHANGE IN FUND BALANCES	<u>(77,165)</u>	<u>69,461</u>	<u>60,895</u>	<u>73,621</u>	<u>126,812</u>
Fund Balances - January 1, 2013	<u>84,382</u>	<u>188,422</u>	<u>251,990</u>	<u>257,045</u>	<u>781,839</u>
FUND BALANCES - DECEMBER 31, 2013	<u>\$ 7,217</u>	<u>\$ 257,883</u>	<u>\$ 312,885</u>	<u>\$ 330,666</u>	<u>\$ 908,651</u>

CITY OF VELVA

Reconciliation of Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities - Modified Cash Basis
For the year ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 126,812

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

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

Current Year Capital Outlay	\$ 527,197	
Current Year Depreciation Expense	<u>(71,466)</u>	455,731

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This consists of the net increase in compensated absences. (1,380)

The issuance of debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement of activities. This is the amount of the net effect of these differences in the treatment of long-term debt and related items:

Bond Proceeds	(27,381)	
Repayment of Debt	<u>64,920</u>	<u>37,539</u>

Change in net position of governmental activities \$ 618,702

CITY OF VELVA
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2013

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water & Sewer	Garbage	Water Imp. District 2005-1		
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 299,913	\$ 16,100	\$ 147,119	\$ 32,948	\$ 496,080
Noncurrent Assets:					
Capital Assets:					
Infrastructure	1,071,124	-	1,773,953	-	2,845,077
Buildings	23,400	-	-	-	23,400
Equipment	71,631	-	-	-	71,631
Accumulated Depreciation	(297,594)	-	(248,353)	-	(545,947)
Total Noncurrent Assets	868,561	-	1,525,600	-	2,394,161
TOTAL ASSETS	1,168,474	16,100	1,672,719	32,948	2,890,241
LIABILITIES					
Current Liabilities:					
Water State Revolving Bonds Payable	15,000	-	-	-	15,000
Special Assessment Bonds Payable	-	-	85,000	-	85,000
Total Current Liabilities	15,000	-	85,000	-	100,000
Noncurrent Liabilities:					
Water State Revolving Bonds Payable	285,000	-	-	-	285,000
Special Assessment Bonds Payable	-	-	585,000	-	585,000
Total Noncurrent Liabilities	285,000	-	585,000	-	870,000
TOTAL LIABILITIES	300,000	-	670,000	-	970,000
NET POSITION					
Net Investment in Capital Assets	568,561	-	855,600	-	1,424,161
Restricted for:					
Debt Service, Expendable	-	-	147,119	-	147,119
Unrestricted	299,913	16,100	-	32,948	348,961
TOTAL NET POSITION	\$ 868,474	\$ 16,100	\$ 1,002,719	\$ 32,948	\$ 1,920,241

CITY OF VELVA
Statement of Revenues, Expenses and Changes in Fund Net Position
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2013

	Major Enterprise Funds			Other Enterprise Funds	Total Enterprise Funds
	Water & Sewer	Garbage	Water Imp. District 2005-1		
OPERATING REVENUES:					
Charges for Services	\$ 248,609	\$ 61,092	\$ -	\$ 5,542	\$ 315,243
Miscellaneous Charges	<u>4,784</u>	<u>19</u>	<u>-</u>	<u>-</u>	<u>4,803</u>
TOTAL OPERATING REVENUES	253,393	61,111	-	5,542	320,046
OPERATING EXPENSES:					
Salaries and Wages	135,262	1,450	-	-	136,712
Utilities	25,677	-	-	-	25,677
Supplies, Maintenance, and Repairs	72,061	-	-	-	72,061
Contracted Services	-	65,714	-	-	65,714
Other Expenses	7,186	75	3,562	-	10,823
Depreciation	<u>29,773</u>	<u>-</u>	<u>35,479</u>	<u>-</u>	<u>65,252</u>
TOTAL OPERATING EXPENSES	<u>269,959</u>	<u>67,239</u>	<u>39,041</u>	<u>-</u>	<u>376,239</u>
INCOME (LOSS) FROM OPERATIONS	(16,566)	(6,128)	(39,041)	5,542	(56,193)
NON-OPERATING REVENUES (EXPENSES):					
Special Assessments	-	-	176,262	-	176,262
Interest Expense	<u>(7,515)</u>	<u>-</u>	<u>(18,875)</u>	<u>-</u>	<u>(26,390)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(7,515)</u>	<u>-</u>	<u>157,387</u>	<u>-</u>	<u>149,872</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(24,081)	(6,128)	118,346	5,542	93,679
Transfers In (Out)	<u>(34,063)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,063)</u>
CHANGE IN NET POSITION	(58,144)	(6,128)	118,346	5,542	59,616
Net Position - January 1, 2013	<u>926,618</u>	<u>22,228</u>	<u>884,373</u>	<u>27,406</u>	<u>1,860,625</u>
NET POSITION - DECEMBER 31, 2013	<u>\$ 868,474</u>	<u>\$ 16,100</u>	<u>\$ 1,002,719</u>	<u>\$ 32,948</u>	<u>\$ 1,920,241</u>

CITY OF VELVA
Statement of Cash Flows
Modified Cash Basis - Proprietary Funds
For the year ended December 31, 2013

	Major Enterprise Funds			Other Enterprise Funds	Total
	Water & Sewer	Garbage	Water Imp. District 2005-1		
<u>Cash Flows from Operating Activities:</u>					
Receipts from Customers	\$ 253,393	\$ 61,111	\$ -	\$ 5,542	\$ 320,046
Payments to Suppliers	(97,738)	(65,714)	-	-	(163,452)
Payments to Employees	(135,262)	(1,450)	-	-	(136,712)
Other Receipts (Expenditures)	(7,186)	(75)	(3,562)	-	(10,823)
Net Cash Provided (Used) by Operating Activities	13,207	(6,128)	(3,562)	5,542	9,059
<u>Cash Flows from Non Capital Financing Activities:</u>					
Transfers In (Out)	(34,063)	-	-	-	(34,063)
Net Cash Provided (Used) by Non Capital Financing Activities	(34,063)	-	-	-	(34,063)
<u>Cash Flows from Capital and Related Financing Activities:</u>					
Special Assessments Collected	-	-	176,262	-	176,262
Loan Proceeds	25,660	-	-	-	25,660
Principal Paid on Capital Debt	(17,579)	-	(85,000)	-	(102,579)
Interest Paid on Capital Debt	(7,515)	-	(18,875)	-	(26,390)
Net Cash Provided (Used) by Capital and Related Financing Activities	566	-	72,387	-	72,953
Net Increase (Decrease) in Cash and Cash Equivalents	(20,290)	(6,128)	68,825	5,542	47,949
Cash and Cash Equivalents, January 1	320,203	22,228	78,294	27,406	448,131
Cash and Cash Equivalents, December 31	<u>\$ 299,913</u>	<u>\$ 16,100</u>	<u>\$ 147,119</u>	<u>\$ 32,948</u>	<u>\$ 496,080</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u>					
Income (Loss) from Operations	\$ (16,566)	\$ (6,128)	\$ (39,041)	\$ 5,542	\$ (56,193)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	29,773	-	35,479	-	65,252
Net Cash Provided (Used) by Operating Activities	<u>\$ 13,207</u>	<u>\$ (6,128)</u>	<u>\$ (3,562)</u>	<u>\$ 5,542</u>	<u>\$ 9,059</u>

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

The City receives funding from local, county, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Based on these criteria, there are no component units to be included within the City's reporting entity.

B. Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

Road & Bridge Fund. This fund accounts for expenditures related to repairs made to roads and bridges in the City of Velva.

Sales Tax – Water & Sewer. This fund accounts for Sales Tax dedicated to Water & Sewer operations.

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

Water and Sewer Fund. This fund accounts for the activity of the water and sewer department. The department operates the water distribution system in the City of Velva.

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

Water Improvement District 2005-1 Fund. This fund accounts for resources collected and the expenditures related to the construction on the drinking water project for the City of Velva.

C. Measurement Focus/Basis of Accounting

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

Measurement Focus

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

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

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheet. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

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

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

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

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

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

D. Deposits

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

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The bank balance of these deposits at December 31, 2013 was \$1,439,395; the carrying balances at this date were \$1,404,731. The difference results from checks outstanding or deposits not yet processed. Of the bank balances, \$368,937 was covered by Federal Depository Insurance, \$1,070,458 was collateralized with securities held by the pledging financial institutions' agent not in the City's name, and \$0 was unsecured. At December 31, 2013, the bank balances were adequately covered by securities pledged by the bank and the board minutes indicated that pledges of securities were reviewed twice during the year, as state law requires them to be reviewed semi-annually.

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

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

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

E. Capital Assets

Capital assets include buildings, infrastructure and equipment. Assets are reported in the governmental activities column and the business-type activities column in the government-wide financial statements. Assets are also reported in the proprietary fund statements. Capital assets are defined by the City as assets with an initial, individual cost of \$2,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings	50 years
Vehicles and Equipment	7 to 15 years
Water & Sewer Components	50 years

F. Compensated Absences

Regular full-time employees earn annual leave based on years of service. Annual leave is cumulative at the rate of five days per year with a maximum accrual of 30 days. Upon termination, employees are paid for their accrued annual leave. Additionally, each full-time employee is entitled to sick leave earned at the rate of one working day per month with a maximum accumulation of 120 days. Upon termination, employees are paid 50% for any sick leave accumulated. A long-term liability for accrued compensated absences has been recorded in the government-wide statements.

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

H. Encumbrance Accounting

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

I. Net Position

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

J. Fund Balance Classifications

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

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

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

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city commission – the City’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City 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 special purposes, but are neither restricted nor committed. The city commission has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Interfund Transactions

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

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

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

Investments consist of certificates of deposit carried at cost with a term of more than three months. The certificates of deposit had interest rates of 2.72 – 3.45 percent in 2013. At December 31, 2013, the City held certificates of deposit in this amount of \$235,813, which are all considered deposits.

NOTE 3 PROPERTY TAXES

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

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

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2013:

	Balance January 1	Increases	Decreases	Balance December 31
Governmental Activities:				
Capital Assets Being Depreciated:				
Infrastructure	\$ 747,364	\$ 493,158	\$ -	\$ 1,240,522
Buildings	972,241	-	-	972,241
Equipment	323,875	34,039	-	357,914
Total	<u>2,043,480</u>	<u>527,197</u>	<u>-</u>	<u>2,570,677</u>
Less Accumulated Depreciation for:				
Infrastructure	47,049	40,675	-	87,724
Buildings	864,611	8,388	-	872,999
Equipment	160,507	22,403	-	182,910
Total	<u>1,072,167</u>	<u>71,466</u>	<u>-</u>	<u>1,143,633</u>
Governmental Activities Capital Assets, Net	<u>\$ 971,313</u>	<u>\$ 455,731</u>	<u>\$ -</u>	<u>\$ 1,427,044</u>
	Balance January 1	Increases	Decreases	Balance December 31
Business-Type Activities:				
Capital Assets Being Depreciated:				
Infrastructure	\$ 2,845,077	\$ -	\$ -	\$ 2,845,077
Buildings	23,400	-	-	23,400
Equipment	71,631	-	-	71,631
Total	<u>2,940,108</u>	<u>-</u>	<u>-</u>	<u>2,940,108</u>
Less Accumulated Depreciation for:				
Infrastructure	421,202	56,518	-	477,720
Buildings	23,400	-	-	23,400
Equipment	36,093	8,734	-	44,827
Total	<u>480,695</u>	<u>65,252</u>	<u>-</u>	<u>545,947</u>
Business-Type Activities Capital Assets, Net	<u>\$ 2,459,413</u>	<u>\$ (65,252)</u>	<u>\$ -</u>	<u>\$ 2,394,161</u>

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 4 CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to functions/programs of the City as follows for the year ended December 31, 2013:

<u>Governmental Activities:</u>	
General Government	\$ 3,273
Public Safety	3,874
Highways and Streets	60,706
Culture and Recreation	3,613
Total	<u>\$ 71,466</u>
<u>Business-Type Activities:</u>	
Water Imp. District 2005-1	\$ 35,479
Water and Sewer	29,773
	<u>\$ 65,252</u>

NOTE 5 LONG-TERM DEBT

During the year ended December 31, 2013, the following changes occurred in long-term liabilities of the City:

PRIMARY GOVERNMENT

Governmental Activities	Balance			Balance	Due Within
	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>One Year</u>
Improvement Bonds	\$ 65,000	\$ -	\$ 20,000	\$ 45,000	\$ 20,000
Loans Payable	118,399	-	24,512	93,887	22,239
General Obligation Bonds	513,027	27,381	20,408	520,000	31,666
Compensated Absences *	12,055	1,380	-	13,435	-
Total Governmental Activities	<u>\$ 708,481</u>	<u>\$ 28,761</u>	<u>\$ 64,920</u>	<u>\$ 672,322</u>	<u>\$ 73,905</u>

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 5 LONG-TERM DEBT – CONTINUED

Improvement Bonds:

\$250,000 Sunset Addition Improvement Bonds of 2002, due in annual installments of \$15,000 to \$25,000 through May 2017; interest at 4.25% to 5.25%. \$ 45,000

Loans Payable:

\$100,000 Sunset Addition Loan Payable from SBPC, due in monthly installments of \$738 through September 2017; interest at 4%. 6,207

\$121,300 Loader Loan Payable from Peoples State Bank, due in annual installments of \$19,976 through July 2018; interest at 4.5%. 87,680

General Obligation Bonds

\$300,000 General Obligation Bonds, Series 2009, due in annual installments of \$10,000 to \$20,000 through May 2029; interest at 2.875% to 4.25%. 260,000

\$70,000 Refunding Improvement Bonds, Series 2012, due in annual installments of \$5,833 to \$5,834 through May 2024; interest at 1.5% to 2.5%. 70,000

\$200,408 Sewer Revenue Bonds, Series 2011, due in annual installments of \$10,000 through September 2028 then \$15,000 through September 2031; interest at 2.5%. 190,000

Total Long-term Debt \$ 658,887

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

Year Ending December 31	Improvement Bonds		Loans Payable		General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 20,000	\$ 1,838	\$ 22,239	\$ 4,071	\$ 31,666	\$ 17,906
2015	25,000	656	16,754	3,222	30,833	15,472
2016	-	-	17,508	2,469	30,833	14,703
2017	-	-	18,295	1,681	30,833	13,920
2018	-	-	19,091	857	30,833	13,019
2019-2023	-	-	-	-	154,168	49,930
2024-2028	-	-	-	-	150,834	23,592
2029-2031	-	-	-	-	60,000	2,300
Total	<u>\$ 45,000</u>	<u>\$ 2,494</u>	<u>\$ 93,887</u>	<u>\$ 12,300</u>	<u>\$ 520,000</u>	<u>\$ 150,842</u>

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 5 LONG-TERM DEBT – CONTINUED

Business-Type Activities	Balance			Balance	Due Within
	January 1	Increases	Decreases	December 31	One Year
Water State Revolving Fund	\$ 291,919	\$ 25,660	\$ 17,579	\$ 300,000	\$ 15,000
Special Assessment Bonds	755,000	-	85,000	670,000	85,000
Total Business-type Activities	\$ 1,046,919	\$ 25,660	\$ 102,579	\$ 970,000	\$ 100,000

Water State Revolving Fund

\$454,074 Water State Revolving Fund through ND Public Finance Authority; of the face amount, \$329,795 of bonds were issued in 2009; due in annual installments of \$15,000 to \$25,000 through September 2029; interest rate of 2.5%. \$300,000

Special Assessment Bonds

\$1,986,240 Water Treatment Plant Special Assessment Bonds of 2006. The bonds are by the ND Public Finance Authority under the Drinking Water State Revolving Fund Program; due in annual installments of \$70,000 to \$185,000 through September 2024; interest rate of 2.5%. \$755,000

The annual requirements to amortize outstanding proprietary fund debt are as follows:

Year Ending December 31	SRF - Water Bond		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2014	\$ 15,000	\$ 7,500	\$ 85,000	\$ 16,750
2015	15,000	7,125	85,000	14,625
2016	15,000	6,750	85,000	12,500
2017	15,000	6,375	85,000	10,375
2018	15,000	6,000	85,000	8,250
2019-2023	95,000	23,625	245,000	12,000
2024-2028	105,000	11,250	-	-
2029	25,000	625	-	-
Total	\$ 300,000	\$ 69,250	\$ 670,000	\$ 74,500

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 6 DEFICIT FUND BALANCES

The following funds had a deficit balance as of December 31, 2013:

Governmental Funds

Sewer & Water Improvement Reserve	\$ 96,220
Main Street Enhancement	37,501
Velva Safe Routes to School 2011	7,766
Velva Sewer Improvements 2011	5,693
Levee Evaluation & Certification	62,260

The City has plans to relieve these deficit balances through sales tax revenues.

NOTE 7 PENSION PLAN

The City of Velva contributes to the North Dakota Public Employees' Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS 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. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, PO Box 1214, Bismarck, North Dakota, 58502-1214.

Plan members are required to contribute 6% of their annual covered salary. The City is required to contribute 7.26% of the employee's salary, which consists of 6.12% for employee retirement and 1.14% for retiree health benefits fund. The City of Velva's contributions to the NDPERS for the years ending December 31, 2013, 2012, and 2011 were \$12,154, \$7,398, and \$6,534, respectively, which were the required contributions for those years.

NOTE 8 RISK MANAGEMENT

The City of Velva is exposed to various risks of loss relating to torts; theft of, damage of, 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 of Velva pays an annual premium to NDIRF for its general liability, automobile, and inland marine insurance coverage.

The City of Velva also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City of Velva pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado is reinsured by a third party insurance carrier for losses incurred within per occurrence limitations. That State Bonding Fund currently provides the City of Velva with blanket fidelity bond coverage for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Velva has workers compensation with the North Dakota Workforce Safety and Insurance. The City provides health insurance through Blue Cross/Blue Shield of North Dakota.

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

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 9 LEGAL COMPLIANCE

The governing board did not amend the budget during the year ended December 31, 2013.

Excess of Actual Expenditures Over Budget in Major Funds

Governmental Funds

General	\$ 40,285
Road & Bridge	6,533

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

NOTE 10 TRANSFERS

The following is a description of the transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2013:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<i>To provide for construction in progress on Water and Sewer Main Street Project of 2009</i>		
<i>For Water and Sewer Main Street Project of 2009</i>		
Water & Sewer - Main Street Project	\$ 9,643	
Shared Use Path 2009	1,369	
Sales Tax - Water & Sewer Fund		\$ 11,012
 <i>To reclass SRF Bond to Water & Sewer Fund</i>		
Water & Sewer - Main Street Project	25,660	
Water & Sewer		25,660
 <i>To Sewer & Water Reserve</i>		
Sewer & Water Improvement Reserve	35,000	
Water & Sewer		35,000
 <i>To provide for removal of old trees within the City</i>		
Tree Fund	4,000	
General Fund		4,000
 <i>For State Revolving Fund Bond</i>		
Water & Sewer	26,597	
Water Revenue Bond		26,597
	\$ 102,269	\$ 102,269

CITY OF VELVA
Notes to the Financial Statements
December 31, 2013

NOTE 11 INTERFUND RECEIVABLES AND PAYABLES

At December 31, 2013, interfund receivables and payables totaled \$6,707 because of the pooled accounts. All is expected to be collected in the next year. Below is a summary of the interfund receivables and payables.

<u>Governmental Funds</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 6,707	
Dike & Flood Fund		\$ 1,206
Velva Sewer Improvements - 2011 Fund		5,501
	<u>\$ 6,707</u>	<u>\$ 6,707</u>

NOTE 12 FUND BALANCES

At December 31, 2013, a summary of the governmental fund balance classifications are as follows:

	<u>General Fund</u>	<u>Road & Bridge</u>	<u>Sales Tax - Water & Sewer</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for Debt Service					
Debt Service - Sunset Addition	\$ -	\$ -	\$ -	\$ 16,532	\$ 16,532
GO Bond Series 2009	-	-	-	23,989	23,989
Sewer District - 2012 Overvold Addition	-	-	-	7,237	7,237
EDC Sales Tax - Sunset Loan Share	-	-	-	41,191	41,191
Assigned					
Road & Bridge	-	257,883	-	-	257,883
Sales Tax - Water & Sewer	-	-	312,885	-	312,885
Sales Tax - Infrastructure	-	-	-	153,710	153,710
City Share of Special Assessments	-	-	-	10,821	10,821
Cemetery	-	-	-	23,258	23,258
Economic Development	-	-	-	3	3
Park District	-	-	-	70,411	70,411
Library	-	-	-	108	108
Fire	-	-	-	16,115	16,115
Fire Equipment Reserve	-	-	-	27,363	27,363
Sales Tax - Economic Development	-	-	-	30,397	30,397
Sales Tax - Park District	-	-	-	36,703	36,703
Highway 52 Sewer Line - 2011	-	-	-	35,943	35,943
Unassigned	<u>7,217</u>	<u>-</u>	<u>-</u>	<u>(163,115)</u>	<u>(155,898)</u>
	<u>\$ 7,217</u>	<u>\$ 257,883</u>	<u>\$ 312,885</u>	<u>\$ 330,666</u>	<u>\$ 908,651</u>

***REQUIRED
SUPPLEMENTARY INFORMATION***

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 General Fund
 For the year ended December 31, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 164,919	\$ 164,919	\$ 162,096	\$ (2,823)
Licenses, Permits, and Fees	9,670	9,670	11,402	1,732
Intergovernmental	83,000	83,000	100,409	17,409
Charges for Services	400	400	1,075	675
Interest	9,000	9,000	9,154	154
Miscellaneous	<u>2,900</u>	<u>2,900</u>	<u>2,384</u>	<u>(516)</u>
TOTAL REVENUES	<u>269,889</u>	<u>269,889</u>	<u>286,520</u>	<u>16,631</u>
EXPENDITURES				
Current:				
General Government	234,400	234,400	277,985	(43,585)
Public Safety	<u>85,000</u>	<u>85,000</u>	<u>81,700</u>	<u>3,300</u>
TOTAL EXPENDITURES	<u>319,400</u>	<u>319,400</u>	<u>359,685</u>	<u>(40,285)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,511)	(49,511)	(73,165)	(23,654)
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(4,000)</u>	<u>(4,000)</u>
NET CHANGE IN FUND BALANCES	(49,511)	(49,511)	(77,165)	(27,654)
Fund Balances - January 1, 2013	<u>84,382</u>	<u>84,382</u>	<u>84,382</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2013	<u>\$ 34,871</u>	<u>\$ 34,871</u>	<u>\$ 7,217</u>	<u>\$ (27,654)</u>

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 Road & Bridge Fund
 For the year ended December 31, 2013

	<u>Budgeted Amounts</u>		Actual (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 170,500	\$ 170,500	\$ 219,971	\$ 49,471
Miscellaneous	50	50	-	(50)
TOTAL REVENUES	<u>170,550</u>	<u>170,550</u>	219,971	49,421
EXPENDITURES				
Current:				
Highways and Streets	<u>143,977</u>	<u>143,977</u>	<u>150,510</u>	<u>(6,533)</u>
TOTAL EXPENDITURES	<u>143,977</u>	<u>143,977</u>	<u>150,510</u>	<u>(6,533)</u>
NET CHANGE IN FUND BALANCES	26,573	26,573	69,461	42,888
Fund Balances - January 1, 2013	<u>188,422</u>	<u>188,422</u>	<u>188,422</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2013	<u>\$ 214,995</u>	<u>\$ 214,995</u>	<u>\$ 257,883</u>	<u>\$ 42,888</u>

CITY OF VELVA
 Budgetary Comparison Schedule - Modified Cash Basis
 Sales Tax Fund - Water & Sewer
 For the year ended December 31, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	
REVENUES				
Sales Tax	\$ 65,000	\$ 65,000	\$ 91,883	\$ 26,883
Interest	<u>2,300</u>	<u>2,300</u>	<u>-</u>	<u>(2,300)</u>
TOTAL REVENUES	67,300	67,300	91,883	24,583
EXPENDITURES				
Current:				
Debt Service:				
Principal	15,304	15,304	15,304	-
Interest	<u>4,672</u>	<u>4,672</u>	<u>4,672</u>	<u>-</u>
TOTAL EXPENDITURES	<u>19,976</u>	<u>19,976</u>	<u>19,976</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,324	47,324	71,907	24,583
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>(11,012)</u>	<u>(11,012)</u>
NET CHANGE IN FUND BALANCES	47,324	47,324	60,895	13,571
Fund Balances - January 1, 2013	<u>251,990</u>	<u>251,990</u>	<u>251,990</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2013	<u>\$ 299,314</u>	<u>\$ 299,314</u>	<u>\$ 312,885</u>	<u>\$ 13,571</u>

City of Velva
Notes to Required Supplementary Information
December 31, 2013

NOTE 1 BUDGETS

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

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

- On or before September 10th of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- On or before October 7th, a public hearing is held for taxpayers to discuss any budgeted items. The governing body reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget.
- On or before October 10th, the board adopts the final budget. The final budget is sent to the county auditor no later than October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- Except as provided by North Dakota Century Code Section 40-40-21, the balance of each appropriation becomes a part of the unappropriated fund balance at year end.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
City of Velva
Velva, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, North Dakota as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies 2013-001 through 2013-003 described in the accompanying schedule of findings to be material weaknesses.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Velva's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Velva, North Dakota's Response to Findings

The City of Velva, North Dakota's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City of Velva's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
September 28, 2018

CITY OF VELVA
Schedule of Findings
For the Year Ended December 31, 2013

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Governmental activities, business-type activities,
each major fund, and the aggregate remaining fund information Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes

Control deficiency identified not considered to be a material weakness? No

Noncompliance material to financial statements noted? No

Section II – Financial Statement Findings

Material Weaknesses

Finding 2013-001: Segregation of Duties

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

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

Cause – Limited staff is available for accounting functions.

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

Recommendation – Due to the size of the City, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited. However, the Board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the City's operations.

Management's Response – The City is aware of the limitations and has determined additional staff is not feasible. The City will monitor the condition.

CITY OF VELVA
Schedule of Findings
For the Year Ended December 31, 2013

Finding 2013-002: Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with *Governmental Accounting Standards Board* statements is required.

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

Effect – The current financial statements completed by the City do not include the government-wide financial statements, the long-term debt, or the capital assets and related depreciation. Due to the financial statement presentation requirements of the *Governmental Accounting Standards Board*, material audit entries were required to adjust the fund statements to the government-wide presentation.

Recommendation – This is not unusual for entities of your size. We recommend the City review the financial statements and related notes prepared by the auditors.

Management’s Response – The City is aware of this issue and has decided to accept the degree of risk associated with the City not preparing its own financial statements.

Finding 2013-003: Journal Entries

Condition – Several journal entries were required to be made during the audit to present accurate financial statements in conformity with *Governmental Accounting Standards Board*.

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

Cause – The year end journal entries for capital assets and debt are not made by the entity.

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

Recommendation – Capital assets and debt amounts should be recorded on the City’s accounting system.

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