CITY OF VELVA
VELVA, NORTH DAKOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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CITY OF VELVA
CITY OFFICIALS
DECEMBER 31, 2015

Elected Officials

Scott Blotter	Commission President
Fred Price	Commissioner
Jim Anderson	Commissioner
David Keller	Commissioner
Mark Balas	Commissioner

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of Velva
Velva, North Dakota

Report on Financial Statements

We were engaged to audit the accompanying modified cash basis 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, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government 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 2; 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. Because of the matter described in the Basis for Disclaimer of Opinions paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions.

Basis for Disclaimer of Opinions

Supporting documentation for the accounting records was not available for our audit of the year ended December 31, 2015. Therefore, we were not able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions.

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Disclaimer of Opinions

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for the audit opinions. Accordingly, we do not express opinions on the modified cash basis financial statements referred to in the first paragraph.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2020, 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 solely 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 the effectiveness of the City of Velva's 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 controls over financial reporting and compliance.

Brady Martz

BRADY, MARTZ AND ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

October 14, 2020

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CITY OF VELVA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 649,299	$ 440,902	$ 1,090,201
Investments	122,066	-	122,066
Capital assets, not being depreciated:			
Construction in progress	118,689	-	118,689
Capital assets:			
Machinery and equipment	380,914	71,631	452,545
Buildings	972,241	23,400	995,641
Infrastructure	3,147,438	1,071,124	4,218,562
Less: accumulated depreciation	(1,633,247)	(354,612)	(1,987,859)
Total assets	3,757,400	1,252,445	5,009,845
LIABILITIES			
Current liabilties:			
Current maturities of general obligation bonds	15,000	-	15,000
Current maturities of revenue bonds	15,833	15,000	30,833
Current maturities of special assessment bonds net of bond premium	115,263	-	115,263
Current maturities of notes payable	38,332	-	38,332
Noncurrent liabilities:			
General obligation bond, net current maturities	220,000	-	220,000
Revenue bonds, net current maturities	204,931	255,000	459,931
Special assessment bond, net current maturities and bond premium	566,314	-	566,314
Notes payable, net current maturities	199,107	-	199,107
Total liabilities	1,374,780	270,000	1,644,780
NET POSITION			
Net investment in capital assets	1,611,255	541,543	2,152,798
Restricted for:			
Cemetary	15,081	-	15,081
Economic development	1,087	-	1,087
Highways and streets	74,625	-	74,625
Public safety	16,995	-	16,995
Debt service	106,931	-	106,931
Capital projects	320,781	-	320,781
Committed for:			
Infrastructure	174,152	-	174,152
Debt service	34,892	-	34,892
Culture and recreation	10,595	-	10,595
Unrestricted	16,226	440,902	457,128
Total net position	$ 2,382,620	$ 982,445	$ 3,365,065

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	$ 278,072	$ 35,599	$ 30,500	$ -	$ (211,973)		$ (211,973)
Cemetary	5,492	-	-	-	(5,492)		(5,492)
Culture and recreation	3,614	-	-	-	(3,614)		(3,614)
Economic development	47,774	-	-	-	(47,774)		(47,774)
Highways and streets	309,066	3,600	-	-	(305,466)		(305,466)
Public safety	109,976	-	-	-	(109,976)		(109,976)
Public works	39,128	-	-	-	(39,128)		(39,128)
Interest and other fiscal charges	9,728	-	-	-	(9,728)		(9,728)
Total governmental activities	802,850	39,199	30,500	-	(733,151)		(733,151)
Business-type Activities:							
Water and sewer	236,652	311,654				75,002	75,002
Garbage	72,757	62,749				(10,008)	(10,008)
Total Business-type activities	309,409	374,403	-	-		64,994	64,994
Total primary government	$ 1,112,259	$ 413,602	$ 30,500	$ -	(733,151)	64,994	(668,157)
				General Revenues			
				Property, delinquent, mobile home taxes	312,134	-	312,134
				Special assessments	16,694	130,193	146,887
				City sales tax	110,493	-	110,493
				State aid distribution	102,608	-	102,608
				Cigarette taxes	3,518	-	3,518
				Highway tax distribution	121,174	-	121,174
				Telecommunications tax	1,844	-	1,844
				Homestead credit	708	-	708
				Oil and gas production taxes	8,372	-	8,372
				Interest	3,604	-	3,604
				Miscellaneous	19,577	183	19,760
				Total general revenues, gain (loss) on sale of capital assets, and transfers	700,726	130,376	831,102
				Change in net position	(32,425)	195,370	162,945
				Net position - January 1	2,415,045	787,075	3,202,120
				Net position - December 31	$ 2,382,620	$ 982,445	$ 3,365,065

See Notes to the Financial Statements

CITY OF VELVA
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
DECEMBER 31, 2015

	General	Roads and Bridges	Sales Tax	Water Plant 2006	Total Nonmajor Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 113,799	74,625	$ 314,615	$ 91,309	$ 54,951	$ 649,299
Investments	122,066	-	-	-	-	122,066
Total assets	$ 235,865	$ 74,625	$ 314,615	$ 91,309	$ 54,951	$ 771,365
FUND BALANCES						
Restricted for:						
Cemetary	-	-	-	-	15,081	15,081
Economic development	-	-	-	-	1,087	1,087
Highways and streets	-	74,625	-	-	-	74,625
Public safety	-	-	-	-	16,995	16,995
Debt service	-	-	-	91,309	15,622	106,931
Capital projects	-	-	314,615	-	6,166	320,781
Committed for:						
Infrastructure	174,152				-	174,152
Debt service	34,892				-	34,892
Culture and recreation	10,595				-	10,595
Unassigned	16,226	-	-	-	-	16,226
Total fund balances	$ 235,865	$ 74,625	$ 314,615	$ 91,309	$ 54,951	$ 771,365

See Notes to the Financial Statements

CITY OF VELVA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT WIDE STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2015

Total Fund Balances for Governmental Funds		$ 771,365
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Construction in progress	118,689	
Infrastructure	3,147,438	
Buildings	972,241	
Machinery and equipment	380,914	
Less: accumulated depreciation	(1,633,247)	
Total capital assets		2,986,035
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds payable	(235,000)	
Revenue bonds payable	(220,764)	
Special assessments bonds payable and unamortized bond premium	(681,577)	
Notes payable	(237,439)	
		(1,374,780)
Total Net Position of Governmental Activities		$ 2,382,620

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General	Roads and Bridges	Sales Tax	Water Plant 2006	Total Nonmajor Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	$ 293,654	$ -	$ 110,493	$ -	$ 18,480	$ 422,627
Licenses and permits	8,435	-	-	-	-	8,435
Intergovernmental	116,342	121,174	-	-	708	238,224
Charges for services	-	3,600	-	-	25,403	29,003
Fines and forfeits	1,761	-	-	-	-	1,761
Special assessments	-	-	-	11,309	5,385	16,694
Contributions	30,500	-	-	-	-	30,500
Interest	3,604	-	-	-	-	3,604
Miscellaneous	15,696	827	-	-	3,054	19,577
Total revenues	469,992	125,601	110,493	11,309	53,030	770,425
EXPENDITURES						
Current:						
General government	274,843	-	-	-	-	274,843
Cemetery	-	-	-	-	5,492	5,492
Economic development and assistance	34,563	-	-	-	13,211	47,774
Highways and streets	-	241,259	-	-	-	241,259
Public safety	81,300	-	-	-	18,154	99,454
Public works	-	-	-	-	3,649	3,649
Debt Service:						
Principal retirement	16,000	-	16,710	85,000	60,612	178,322
interest and other fiscal charges	-	-	3,266	17,338	19,388	39,992
Capital outlays	-	-	-	-	8,202	8,202
Total expenditures	406,706	241,259	19,976	102,338	128,708	898,987
Excess (deficiency) of revenues over (under) expenditures	63,286	(115,658)	90,517	(91,029)	(75,678)	(128,562)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	43,959	43,959
Transfers out	(43,959)	-	-	-	-	(43,959)
Total other financing sources and uses	(43,959)	-	-	-	43,959	-
Net change in fund balances	19,327	(115,658)	90,517	(91,029)	(31,719)	(128,562)
Fund balances - January 1	216,538	190,283	224,098	182,338	86,670	899,927
Fund balances - December 31	$ 235,865	$ 74,625	$ 314,615	$ 91,309	$ 54,951	$ 771,365

See Notes to the Financial Statements

CITY OF VELVA
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT WIDE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances-Total Governmental Funds		$ (128,562)
Amounts reported for governmental activities in the statement of activities are 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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Capital outlays	8,202	
Depreciation	(120,651)	
Total		(112,449)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Amortization of bond premium	30,264	
Principal retirements	178,322	
		208,586
Change in Net Position of Governmental Activities		$ (32,425)

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
DECEMBER 31, 2015

	Water and Sewer	Garbage	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 429,495	$ 11,407	$ 440,902
Capital assets			
Infrastructure	1,071,124	-	1,071,124
Buildings	23,400	-	23,400
Equipment	71,631	-	71,631
Less accumulated depreciation	(354,612)	-	(354,612)
Total capital assets	811,543	-	811,543
Total assets	1,241,038	11,407	1,252,445
LIABILITIES			
Current liabilities			
Current maturities of revenue bonds	15,000	-	15,000
Non-current liabilities			
Revenue bonds, less current maturities	255,000	-	255,000
Total liabilities	270,000	-	270,000
NET POSITION			
Net investment in capital assets	541,543	-	541,543
Unrestricted	429,495	11,407	440,902
Total net position	$ 971,038	$ 11,407	$ 982,445

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – PROPRIETARY FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water and Sewer	Garbage	Total
Operating revenues:			
Charges for services	$ 286,840	$ 62,749	$ 349,589
Miscellaneous	24,814	-	24,814
Total Operating Revenues	311,654	62,749	374,403
Operating expenses:			
Salaries and benefits	85,021	-	85,021
Garbage contracted services	-	44,898	44,898
Utilities	24,197	27,859	52,056
Supplies	30,084	-	30,084
Repairs and maintenance	56,423	-	56,423
Insurance	-	-	-
Miscellaneous	4,912	-	4,912
Depreciation	27,465	-	27,465
Total operating expenses	228,102	72,757	300,859
Operating income (loss)	83,552	(10,008)	73,544
Nonoperating Revenues (expenses):			
Other income (expense)	-	183	183
Special assessments	130,193	-	130,193
Interest	(8,550)	-	(8,550)
Total nonoperating revenues (expenses)	121,643	183	121,826
Change in net position	205,195	(9,825)	195,370
Net position, January 1, as orginally stated	765,843	21,232	787,075
Net position, December 31	$ 971,038	$ 11,407	$ 982,445

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Water and Sewer	Garbage	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 311,654	$ 62,749	$ 374,403
Payments to employees	(85,021)	-	(85,021)
Payments to suppliers	(115,616)	(72,757)	(188,373)
Net cash provided (used) by operating activities:	111,017	(10,008)	101,009
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES			
Other receipts (disbursements)	-	183	183
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessments	130,193	-	130,193
Interest on long term debt	(8,550)	-	(8,550)
Principal payments on long term debt	(15,000)	-	(15,000)
Net cash provided (used) by investing activities:	106,643	-	106,643
Net increase (decrease) in cash and cash equivalents	217,660	(9,825)	207,835
Cash and cash equivalents - January 1	211,835	21,232	233,067
Cash and cash equivalents - December 31	$ 429,495	$ 11,407	$ 440,902
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ 83,552	$ (10,008)	$ 73,544
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	27,465	-	27,465
Net cash provided (used) by operating activities	$ 111,017	$ (10,008)	$ 101,009

See Notes to the Financial Statements

CITY OF VELVA
STATEMENT OF FIDUCIARY NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2015

	Library	Parks and Recreation Retirement	Fire Department	Fire Department Equipment Reserve
ASSETS				
Cash and cash equivalents	$ 2,371	$ 65,625	$ 16,318	$ 44,145
LIABILITIES				
Due to other governments	$ 2,371	$ 65,625	$ 16,318	$ 44,145

See Notes to the Financial Statements

NOTE 1 DESCRIPTION OF THE CITY

The City of Velva operates under a City Commission form of government. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The City's significant accounting policies are as described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Financial Reporting Entity

The financial statements of the reporting entity include those of the City of Velva, North Dakota (the primary government). Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of an organization’s governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources. Component units may also include organizations that are fiscally dependent on the City. Fiscal dependence can include the City’s approval of the budget, issuance of debt, and/or levying of taxes for the organization. Based on these criteria, the City of Velva does not have any component units.

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the reporting entity, except for fiduciary funds. The statements distinguish between governmental activities, which are normally financed through taxes and intergovernmental revenues, and business-type activities, which are normally financed in whole or in part by fees and charges for services.

The Statement of Net Position presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, operating grants and contributions, and capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designated to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

2) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Each major fund is presented in a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. There are three categories of funds: governmental, proprietary and fiduciary. The funds of the financial entity are described below:

<u>Governmental Funds</u>

General fund - The general fund is the general operating fund of the City and is always classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special revenue funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital project funds - Capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Debt service funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Major Funds

The funds are further classified as major or nonmajor. The City reports the following major funds:

Governmental

General fund as described above.

Roads and Bridges, a special revenue fund, is used to account for the revenues from the highway distribution tax and related expenditures.

Sales Tax, a special revenue fund, is used to account for the revenues from the sales tax revenues and related expenditures.

Water Plant 2006, a debt service fund, is used to account for the accumulation of resources for, and payment for the 2006 water plant.

Proprietary

Enterprise funds - Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following major enterprise fund.

Water and Sewer, an enterprise fund, is used to account for water and sewer services provided to the residents of the City.

Garbage, an enterprise fund, is used to account for garbage services provided to the residents of the City.

Fiduciary

Agency funds account for assets held by the City as an agent for other governmental units, or other organizations, and do not involve measurement of results of operations. The City reports agency funds for the park district, library, fire department, and fire department equipment reserve funds.

Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-wide financial statements

In the government-wide financial statements, both the governmental and business-type activities are prepared using the economic resources measurement focus within the limitations of the modified cash basis of accounting.

Fund financial statements

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 and fiduciary funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current 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.

The proprietary funds use an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide statements of net position and statement of activities and the fund financial statements, both governmental and business-type activities are presented using the 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 long term debt and depreciation in the government-wide statements, and proprietary fund 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), 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.

Budgets and Budgetary Accounting

The City Commission follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year.

The governing board reviews the preliminary budget, may make revisions, and approves it on or before September 10. On or about October 7, 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. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end.

The City prepares its budget and reports it governmental funds on the same basis of accounting.

Cash and Cash Equivalents

The City considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include infrastructure, construction in progress, property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The assets are updated for additions and retirements during the City’s fiscal year. Improvements that significantly extend the useful life of the asset are also capitalized. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City’s capitalization policy is $2,000 and an estimated useful life in excess of one year or more.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All capital asset additions are depreciated over their estimated useful lives on a straight-line basis. The City has established the following useful lives:

Infrastructure	20 to 50 years
Building	20 to 50 years
Machinery and equipment	5 to 15 years

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists of capital lease, notes, and bonds payables. Bond premiums and discounts, if any, are deferred and amortized over the life of the bonds using the straight-line method.

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements. In the fund financial statements, governmental fund types recognize bond discounts during the current period.

Equity Classifications

<u>Government-wide Financial Statements</u>

Equity is classified as net position and displayed in three components:

1) Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2) Restricted net position - Consists of net position with constraints placed on the use either by a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or b) law through constitutional provisions or enabling legislation.
3) Unrestricted net position - All other net position that do not meet the definition of net investment in capital assets or restricted.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

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 Commission 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. Management of the City 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.

Interfund Transactions

In the process of aggregating the financial information for the government-wide statement of net position and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1) Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.

2) Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.

3) Interfund reimbursements - Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.

4) Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1) Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.

2) Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the statement of activities.

Property Taxes

All real estate is assessed as of the current value in April of each year. Property taxes are attached as an enforceable lien on the real estate and become due on January 1st of the year following the assessment date.

A 5% reduction of the taxes is allowed if the taxes are paid in full by February 15th. Penalty and interest are added on March 1st if the first half of the taxes is not paid. Additional penalty and interest are added on a quarterly basis to those taxes that are not paid.

Taxes are collected by the county and remitted monthly to the City.

Insurance Recoveries

Insurance recoveries are classified under miscellaneous revenue in the fund financial statements. These amounts are factored into gain/loss on the disposal of capital assets on the government wide financial statements, which is included in general government expenses on the statement of activities.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 3 DEPOSITS

In accordance with North Dakota statutes, the City maintains deposits at 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 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.

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 agreement 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 deposits fully insured by the federal deposit insurance corporation
(d) Obligations of the state
(e) Commercial paper issued by a United States corporation rated in the highest quality category by at least two nationally recognized rating agencies and matures in two hundred seventy days or less.

As of December 31, 2015, the City had investments in certificates of deposits as authorized by statutes. These amounts are classified as cash and cash equivalents on the financial statements in accordance with the City's policy.

Custodial Credit Risk

This is the risk that, in the event a financial institution fails, a government is unable to recover the value of its deposits, investments, or collateralized securities in the possession of the institution.

The City maintains cash on deposit at various financial institutions. The amounts on deposit were insured by the FDIC up to $250,000. At December 31, 2015, none of the City's deposits were exposed to custodial credit risk, as all deposits were covered by FDIC coverage and pledged collateral through local financial institutions. $997,017 of the City's deposits are covered by pledged securities held in the City's name. The total securities pledged exceed 110% of the uninsured balance.

Concentration of Credit Risk:

The City does not have a limit on the amount the City may invest in any one issuer. The City has no formal investment policy.

NOTE 4 INTERFUND ACCOUNTS AND TRANSFERS

Interfund Transfers

A summary of interfund transfers for the fiscal year ended December 31, 2015, follows:

	Transfers In	Transfers Out
General Fund	$ -	$ 43,959
Nonmajor Governmental	43,959	-
	$ 43,959	$ 43,959

Transfers were to cover deficit cash balances related to expenditures in excess of revenues.

NOTE 5 CAPITAL ASSETS

The following is a summary of capital assets during the fiscal year ending December 31, 2015:

	Balance 1/1/15	Additions	Deletions	Balance 12/31/15
Governmental activities				
Capital assets not being depreciated:				
Construction in progress	$ 110,487	$ 8,202	$ -	$ 118,689
Capital assets being depreciated:				
Equipment	380,914	-	-	380,914
Buildings	972,241	-	-	972,241
Infrastructure	3,147,438	-	-	3,147,438
Total capital assets being depreciated	4,500,593	-	-	4,500,593
Less accumulated depreciation:				
Equipment	(204,946)	(22,075)	-	(227,021)
Buildings	(881,388)	(8,390)	-	(889,778)
Infrastructure	(426,263)	(90,186)	-	(516,449)
Total accumulated depreciation	(1,512,597)	(120,651)	-	(1,633,248)
Total capital assets being depreciated, net	2,987,996	(120,651)	-	2,867,345
Net capital assets	$ 3,098,483	$ (112,449)	$ -	$ 2,986,034

	Balance 1/1/15	Additions	Deletions	Balance 12/31/15
Business type activities				
Capital assets being depreciated:				
Equipment	$ 71,631	$ -	$ -	$ 71,631
Buildings	23,400	-	-	23,400
Infrastructure	1,071,124	-	-	1,071,124
Total capital assets being depreciated	1,166,155	-	-	1,166,155
Less accumulated depreciation:				
Equipment	(53,341)	(8,514)	-	(61,855)
Buildings	(23,400)	-	-	(23,400)
Infrastructure	(250,406)	(18,951)	-	(269,357)
Total accumulated depreciation	(327,147)	(27,465)	-	(354,612)
Net capital assets	$ 839,008	$ (27,465)	$ -	$ 811,543

Depreciation expense for the governmental activities was charged as follows on the Statement of Activities:

General Government	$ 3,230
Culture & Recreation	3,614
Highway & Streets	67,806
Public Safety	10,522
Public Works	35,479
Total Depreciation Expense	$ 120,651

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City of Velva for the year ended December 31, 2015:

	Balance 1/1/15	Additions	Reductions	Balance 12/31/15	Due Within One Year
Governmental activites					
General obligation bonds	$ 250,000	$ -	$ (15,000)	$ 235,000	$ 15,000
Revenue bonds	236,597	-	(15,833)	220,764	15,833
Special assessments bonds	610,000	-	(110,000)	500,000	85,000
Plus: bond premium	211,840	-	(30,263)	181,577	30,263
Notes payable	274,928	-	(37,489)	237,439	38,331
Total	$ 1,583,365	$ -	$ (208,585)	$ 1,374,780	$ 184,427
Business type activities					
Revenue bonds	$ 285,000	$ -	$ (15,000)	$ 270,000	$ 15,000

Long term debt at December 31, 2015 consists of the following individual issues:

	Balance 12/31/2015
Governmental activities:	
General obligation bonds payable:	
$300,000 General Obligation Bonds of 2009 due in annual principal installments of $15,000 to $20,000 through May 1, 2029; semi-annual interest payments at 2.875% to 4.250%.	$ 235,000
Revenue bonds payable:	
$190,000 Sewer Revenue Bonds of 2011 due in annual principal installments of $10,000 to $15,000 through September 1, 2031; semi-annual interest payments at 2.50%	$ 170,000
$70,000 Refunding Improvement Bonds, Series 2012 due in annual principal installments of $5,833 through May 1, 2024; semi-annual interest payments at 2.50%.	50,764
Total revenue bonds payable	$ 220,764
Special assessments bonds payable:	
$1,031,321 Special Assessments Bonds - Water Treatment Plant Improvements due in annual principal installment sof $85,000 to $75,000; semi-annual interest at 2.50%.	$ 500,000
Note payable:	
$121,300 JD Loader note payable due in annual principal installments of $16,752 to $19,109 through July 2018; annual interest payment at 4.50%.	$ 54,890
$160,000 fire truck note payable due in annual principal installments of $1,333 through July 2024; no interest due. Note secured by fire truck.	137,333
$50,000 note payable for sewer lagoon repair due in annual principal installments of $4,779 to $5,227 through February 2024; annual interest at 1%.	45,216
Tota notes payable	$ 237,439
Business-type activities:	
$300,000 Water Revenue Bonds of 2009 due in annual principal installments of $15,000 to $20,000 through September 1, 2029; semi-annual interest payments at 2.50%	$ 270,000

The future expected requirements to amortize long term debt, including interest, as of December 31, 2015 are as follows:

Governmental activities

	General Obligation Bonds		Revenue Bonds		Special Assessments Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 15,000	$ 9,359	$ 15,833	$ 5,344	$ 85,000	$ 12,500
2017	15,000	8,928	15,833	4,992	85,000	10,375
2018	15,000	8,394	15,833	4,625	85,000	8,250
2019	15,000	7,756	15,833	4,258	85,000	6,125
2020	15,000	7,119	15,833	3,892	85,000	4,000
2021-2025	80,000	25,925	71,599	13,667	75,000	1,875
2026-2030	80,000	6,800	60,000	6,125	-	-
2031	-	-	10,000	250	-	-
	$ 235,000	$ 74,281	$ 220,764	$ 43,153	$ 500,000	$ 43,125

	Notes Payable		Total	
	Principal	Interest	Principal	Interest
2016	$ 38,331	$ 2,923	$ 154,164	$ 30,126
2017	39,168	2,087	155,001	26,382
2018	40,015	1,222	155,848	22,491
2019	20,973	306	136,806	18,445
2020	21,022	256	136,855	15,267
2021-2025	77,930	518	304,529	41,984
2026-2030	-	-	140,000	12,925
2031	-	-	10,000	250
	$ 237,439	$ 7,312	$ 1,193,203	$ 167,871

Business-type activities

	Revenue Bonds	
	Principal	Interest
2016	$ 15,000	$ 6,750
2017	15,000	6,375
2018	15,000	6,000
2019	15,000	5,625
2020	20,000	5,250
2021-2025	100,000	18,750
2026-2029	90,000	5,875
	$ 270,000	$ 54,625

NOTE 7 RISK MANAGEMENT

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

In 1986, the 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, auto, and inland marine insurance coverage. The coverage by NDIRF is limited to losses of $1,000,000 per occurrence for general liability.

The City of Velva also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The State Bonding Fund currently provides the City with blanket fidelity bond coverage in the amount of $2,000,000 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 Workforce Safety and Insurance and purchases commercial insurance for employee health and accident insurance for its full-time employees.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 8 DEFINED BENEFIT PLAN

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

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

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees. Effective July 1, 2015, the board was expanded to include two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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

Death and Disability Benefits

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

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

Refunds of Member Account Balance

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

Member and Employer Contributions

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

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

1 to 12 months of service – Greater of one percent of monthly salary or $25
13 to 24 months of service – Greater of two percent of monthly salary or $25
25 to 36 months of service – Greater of three percent of monthly salary or $25
Longer than 36 months of service – Greater of four percent of monthly salary or $25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, if the City of Velva were to report on the full accrual basis, a liability of $85,725 for its proportionate share of the net pension liability would have been reported. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on the Employer's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2015 the Employer's proportion was 0.012689 percent, which was a decrease of 0.000429 from its proportion measured as of June 30, 2014. There was no net pension liability or deferred inflows or outflows of resources reported on the City's financial statements as they are reporting on the modified cash basis.

***Actuarial assumptions*.** The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

***Discount rate*.** The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2015, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

NDPERS issues a publicly available financial report that includes financial statements and the required supplement information for NDPERS. That report may be obtained by writing to NDPERS; 400 E Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 9 COMMITMENTS

In July 2019, the City discovered that employee and employer contribution rates were not calculated correctly for employees participating in the NDPERS main retirement plan. The issue has since been corrected and the City has determined approximately $30,750 is due to employees for excess contributions deducted from their gross pay.

NOTE 10 RELATED PARTY TRANSACTION

The City issued a $160,000 note payable for the purchase of a fire truck for the City of Velva Fire Department in 2014. The note is expected to be repaid utilizing property taxes levied for the Fire Department – Equipment Reserve. The fire truck is the property of the City of Velva Fire Department. The remaining balance on the note payable is $137,333 as of December 31, 2015.

NOTE 11 LEGAL COMPLIANCE

Budgetary Information:

The City Commission adopts an annual budget on a basis consistent with the modified cash basis of accounting for the general fund and each special revenue fund of the municipality. The City is required to present the adopted and final amended revenues and expenditures for each of these funds.

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

- On or before August 10 of the preceding fiscal year, the City prepares a preliminary budget for the next succeeding year beginning January 1. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing which is to be held after September 7 but before October 7, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10.
- 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.
- All annual appropriations lapse at year-end.

Budget Amendments

The City's governing board did not amend the budgets during the year ended December 31, 2015.

NOTE 12 LITIGATION

the estimated loss in all of the litigation against the City in which a loss to the City was reasonably possible was estimated at a range of $50,000 - $75,000.

NOTE 13 RECENT PRONOUNCEMENTS

The City will implement the following recent pronouncements for fiscal years ending after December 31, 2015:

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining fair value measurement for reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement periods beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for reporting periods beginning after June 15, 2015. Earlier application is permitted.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 80, *Blending Requirements for Certain Component Units and amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organization Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

GASB Statement No. 82*, Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This

Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities,* be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans,* or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

Management has not yet determined what effect these statements will have on the entity's financial statements.

NOTE 13 SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal state and local governments have since implemented various restrictions on travel, public gatherings, and business operations. Restrictions and government social distancing recommendations have significantly impacted the activities of the City. While the City expects this matter to negatively impact its results of operations and financial condition, the extent of the impact is uncertain.

The City purchased a Street Sweeper in 2016 for approximately $162,000.

The City incurred approximately $95,500 of expenses for the Welo building demolition in 2017. The County reimbursed the City for approximately 50% of this project.

The City completed the Park Bridge project at an approximate cost of $280,000 in 2020. The City received state reimbursement for this project of approximately $142,000.

The City started a water meter replacement project in 2020. The project is expected to cost approximately $120,000.

Subsequent events have been evaluated through October 14, 2020, which is the date these financial statements were available to be issued.

BradyMartz

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

To the City Commission
City of Velva
Velva, North Dakota

We were engaged to 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, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Velva, as of and for the year ended December 31, 2014, and the related notes to the modified cash basis financial statements, which collectively comprise City of Velva's basic financial statements, and have issued our report thereon dated October 14, 2020.. Our report disclaims an opinion on such financials statements because of insufficient records.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2015-001, 2015-002, and 2015-003 that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 is required to be reported under *Government Auditing Standards*.

City's Responses to Findings

City of Velva's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

October 14, 2020

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2015-001 – Preparation of Financial Statements - Material Weakness

Criteria
An appropriate system of internal controls requires the City to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the City's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition
The City has engaged its auditors to prepare the financial statements including all disclosures.

Cause
The City elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the City's financial statements.

Recommendation
We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials
The City of Velva is a small city and it is not cost effective to internally prepare full disclosure financial statements. The City will establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

2015-002 – Journal Entries - Material Weakness

Criteria
The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected on the modified cash basis of accounting.

Condition
During our audit, current year adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Cause
The City's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with the modified cash basis of accounting.

Effect
An appropriate system of internal controls is not present to make a determination that the general ledger accounts are properly adjusted in compliance with the modified cash basis of accounting.

Recommendation
Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials
Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

2015-003 - Segregation of Duties – Material Weakness

Criteria
Generally, a system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation.

Condition
There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping, and reconciliation.

Cause
Size and budget constraints limit the number of personnel within the accounting department.

Effect
The design of internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
The control structure should be reviewed periodically and consideration given on how to improve segregation of duties. Compensating controls over the underlying financial information may be obtained by oversight by the City Commission.

Views of Responsible Officials
The City of Velva is a small City and it is not cost effective to have multiple staff to segregate duties. All bills will be presented to the City Commission monthly for approval and all financial reports and bank statements will be reviewed at each meeting.