



Financial Statements
December 31, 2019

City of Valley City, North Dakota

Elected and Appointed Officials (Unaudited)	1
Independent Auditor’s Report	2
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	5
Statement of Activities	6
Fund Financial Statements	
Governmental Funds	
Balance Sheet	7
Reconciliation of the Balance Sheet to the Statement of Net Position	8
Statement of Revenues, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	10
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	11
Proprietary Funds	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	15
Supplementary Information	
General Fund, By Department	
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	34
Nonmajor Governmental Funds	
Combined Balance Sheet	35
Combined Schedule of Revenues, Expenditures and Changes in Fund Balances	36
Nonmajor Special Revenue Funds	
Combining Balance Sheet	37
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	39
Nonmajor Capital Project Funds	
Combining Balance Sheet	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	42
General Operations Department	
Schedule of Revenues – Budget to Actual	43
Schedule of Expenditures – Budget to Actual	44
Schedule of Expenditures of Federal Awards	47
Notes to Schedule of Expenditures of Federal Awards	48

Additional Reports

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49
Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	51
Schedule of Findings and Questioned Costs	53

City of Valley City, North Dakota
Elected and Appointed Officials (Unaudited)
December 31, 2019

<u>Elected</u>	<u>Position</u>	<u>Term Expires</u>
Dave Carlsrud	President of City Commission	6/30/2022
Jeff Erickson	City Commissioner	6/30/2022
Dewey Magnuson	City Commissioner	6/30/2022
Ross Powell	City Commissioner	6/30/2020
Mike Bishop	City Commissioner	6/30/2020
<u>Administration</u>		
David C. Schelkoph	City Administrator	
Avis Richter	Finance Director	
Gary Jacobson	Accountant/Office Manager	



Independent Auditor's Report

The Board of City Commissioners
City of Valley City, 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 Valley City, North Dakota (the City), as of and for the year ended December 31, 2019, 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 accounting principles generally accepted in the United States of America; this includes 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 of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2019 and the respective changes in financial position and, where applicable, cash flows thereof and the General Fund Budgetary Schedule for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 the missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The listing of elected and appointed officials and combining and individual fund schedules are presented for purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The combining and individual fund schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The listing of elected and appointed officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on this listing.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2020 on our consideration of the City'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'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's internal control over financial reporting and compliance.

Handwritten signature of Eide Sallee LLP in cursive script.

Fargo, North Dakota

August 3, 2020

City of Valley City, North Dakota

Statement of Net Position

December 31, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,827,259	\$ 4,821,403	\$ 9,648,662
Restricted cash	501,425	280,720	782,145
Receivables			
Accounts	1,747,933	762,815	2,510,748
Unbilled revenues	13,557	444,844	458,401
Interest	-	939	939
Property taxes	35,677	-	35,677
Special assessments	7,803,483	-	7,803,483
Due from other governmental units	604,621	2,884	607,505
Interfund balances	295,291	(295,291)	-
Prepaid items	-	45,561	45,561
Inventory	-	757,579	757,579
Unearned debits	-	3,940	3,940
Capital assets			
Land	173,800	424,693	598,493
Construction in progress	39,783,380	-	39,783,380
Infrastructure	40,717,680	-	40,717,680
Buildings and improvements	2,130,807	25,577,456	27,708,263
Machinery and equipment	1,462,212	9,062,124	10,524,336
Vehicles	3,182,953	-	3,182,953
Mains and lines	-	44,411,543	44,411,543
Less accumulated depreciation	(12,824,847)	(39,427,327)	(52,252,174)
Total assets	<u>90,455,231</u>	<u>46,873,883</u>	<u>137,329,114</u>
Liabilities			
Accounts payable	1,469,374	592,610	2,061,984
Accrued interest payable	109,573	5,825	115,398
Other liabilities	99,224	137,818	237,042
Long-term liabilities			
Due within one year	1,504,695	429,602	1,934,297
Due in more than one year	17,305,715	1,210,000	18,515,715
Total liabilities	<u>20,488,581</u>	<u>2,375,855</u>	<u>22,864,436</u>
Net position			
Net investment in capital assets	55,943,981	38,408,887	94,352,868
Restricted	14,222,795	225,750	14,448,545
Unrestricted	(200,126)	5,863,391	5,663,265
Total net position	<u>\$ 69,966,650</u>	<u>\$ 44,498,028</u>	<u>\$ 114,464,678</u>

City of Valley City, North Dakota
Statement of Activities
Year Ended December 31, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,498,915	\$ 774,023	\$ -	\$ -	\$ (724,892)	\$ -	\$ (724,892)
Public safety	2,782,703	127,282	13,445	7,183,754	4,541,778	-	4,541,778
Public works	2,583,510	1,151,779	-	777,680	(654,051)	-	(654,051)
Culture and recreation	424,855	-	-	-	(424,855)	-	(424,855)
Economic development	623,991	-	9,000	-	(614,991)	-	(614,991)
Interest on long-term debt	358,692	-	-	-	(358,692)	-	(358,692)
Total governmental activities	8,272,666	2,053,084	22,445	7,961,434	1,764,297	-	1,764,297
Business-type activities							
Electric	6,269,678	7,684,386	-	-	-	1,414,708	1,414,708
Water	2,440,753	1,411,718	-	149,369	-	(879,666)	(879,666)
Sewer facility	697,194	748,040	-	-	-	50,846	50,846
Garbage	1,166,436	1,204,244	-	-	-	37,808	37,808
Total business-type activities	10,574,061	11,048,388	-	149,369	-	623,696	623,696
Total Government	\$ 18,846,727	\$ 13,101,472	\$ 22,445	\$ 8,110,803	1,764,297	623,696	2,387,993
General revenues							
Sales and use tax					2,285,919	-	2,285,919
Property taxes					1,514,955	-	1,514,955
State aid					964,327	-	964,327
Unrestricted investment earnings					39,450	27,795	67,245
Miscellaneous					110,202	33,851	144,053
Transfers					1,559,904	(1,538,283)	21,621
Total general revenue and transfers					6,474,757	(1,476,637)	4,998,120
Change in net position					8,239,054	(852,941)	7,386,113
Net position - beginning					61,727,596	45,350,969	107,078,565
Net position - ending					\$ 69,966,650	\$ 44,498,028	\$ 114,464,678

City of Valley City, North Dakota
 Governmental Funds
 Balance Sheet
 December 31, 2019

	General	Permanent Flood Protection	Paving Projects	Infrastructure Renewal & Replacement	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 1,862,203	\$ -	\$ -	\$ -	\$ 2,401,505	\$ 563,551	\$ 4,827,259
Restricted cash	-	-	-	-	492,373	9,052	501,425
Due from other funds	-	-	-	2,240,074	-	700,441	2,940,515
Receivables							
Accounts	116,684	-	-	19,953	-	7,652	144,289
Taxes receivable - delinquent	-	-	-	-	-	4,686	4,686
Unbilled revenues	-	-	-	13,557	-	-	13,557
Property taxes	30,991	-	-	-	-	-	30,991
Special assessments							
Current	109,767	-	-	-	632,709	5,625	748,101
Delinquent	6,756	-	-	-	36,527	-	43,283
Deferred	514,977	-	-	-	6,448,372	48,750	7,012,099
Interfund	400	-	-	-	294,891	-	295,291
Due from other governmental units	146,484	1,556,121	47,523	184,291	-	273,846	2,208,265
Total assets	<u>\$ 2,788,262</u>	<u>\$ 1,556,121</u>	<u>\$ 47,523</u>	<u>\$ 2,457,875</u>	<u>\$ 10,306,377</u>	<u>\$ 1,613,603</u>	<u>\$ 18,769,761</u>
Liabilities and Fund Balance							
Liabilities							
Accounts payable	\$ 109,438	\$ 1,039,991	\$ 173,857	\$ -	\$ -	\$ 146,088	\$ 1,469,374
Due to other funds	-	947,152	946,210	-	-	1,047,153	2,940,515
Other liabilities	99,224	-	-	-	-	-	99,224
Total liabilities	<u>208,662</u>	<u>1,987,143</u>	<u>1,120,067</u>	<u>-</u>	<u>-</u>	<u>1,193,241</u>	<u>4,509,113</u>
Deferred Inflows of Resources							
Unavailable revenue-property taxes	30,991	-	-	-	-	4,686	35,677
Unavailable revenue-special assessments	631,900	-	-	-	7,412,499	54,375	8,098,774
Total deferred inflows of resources	<u>662,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,412,499</u>	<u>59,061</u>	<u>8,134,451</u>
Fund Balance (Deficit)							
Restricted for							
Debt service	-	-	-	-	2,893,878	-	2,893,878
Emergency services	-	-	-	-	-	9,052	9,052
Community development	-	-	-	-	-	1,448,417	1,448,417
Library services	-	-	-	-	-	1,074	1,074
Infrastructure	-	-	-	2,457,875	-	-	2,457,875
Unassigned	1,916,709	(431,022)	(1,072,544)	-	-	(1,097,242)	(684,099)
Total fund balance (deficit)	<u>1,916,709</u>	<u>(431,022)</u>	<u>(1,072,544)</u>	<u>2,457,875</u>	<u>2,893,878</u>	<u>361,301</u>	<u>6,126,197</u>
Total liabilities, deferred inflows of resources, and fund balance (deficit)	<u>\$ 2,788,262</u>	<u>\$ 1,556,121</u>	<u>\$ 47,523</u>	<u>\$ 2,457,875</u>	<u>\$ 10,306,377</u>	<u>\$ 1,613,603</u>	<u>\$ 18,769,761</u>

City of Valley City, North Dakota
 Governmental Funds
 Reconciliation of the Balance Sheet to the Statement of Net Position
 December 31, 2019

Total Fund Balances – Governmental Funds	\$ 6,126,197
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	74,625,985
<p>Other assets are not available to pay for current-period expenditures and, therefore, are either not recognized as a receivable or are deferred in the funds.</p>	8,134,451
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. In the current period these amounts are:</p>	
Special assessment bonds	(10,805,677)
Sales tax revenue bonds	(7,124,445)
PFA loan	(395,851)
Capital lease payable	(356,031)
Compensated absences	(128,406)
Accrued interest	(109,573)
	(19,225,983)
Total net position – governmental activities	\$ 69,966,650

City of Valley City, North Dakota

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2019

	General	Permanent Flood Protection	Paving Projects	Infrastructure Renewal & Replacement	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues							
General property taxes	\$ 1,127,673	\$ -	\$ -	\$ -	\$ 255,305	\$ 168,785	\$ 1,551,763
Special assessments	168,488	-	-	-	1,147,178	-	1,315,666
Franchise fees	61,347	-	-	437,710	-	-	499,057
Licenses and permits	50,028	-	-	-	-	-	50,028
Intergovernmental revenue	1,033,396	5,245,883	1,938,251	-	33,192	601,466	8,852,188
Fines and forfeitures	95,002	-	-	-	-	-	95,002
Sales tax	-	-	-	830,082	-	1,226,485	2,056,567
Miscellaneous revenue	298,047	-	47,523	-	229,352	3,298	578,220
Total revenues	2,833,981	5,245,883	1,985,774	1,267,792	1,665,027	2,000,034	14,998,491
Expenditures							
Current							
General government	1,050,550	-	-	-	-	-	1,050,550
Public safety	1,568,297	-	-	-	-	140,602	1,708,899
Public works	1,020,492	-	-	-	-	-	1,020,492
General government - other	40,542	-	-	-	-	313,440	353,982
Culture and recreation	172,372	-	-	-	-	145,540	317,912
Community development	310,479	-	-	-	-	551,276	861,755
Economic development	284	-	-	-	-	-	284
Permanent flood protection	-	911,329	-	-	-	-	911,329
Miscellaneous	90,992	-	-	621	-	161,010	252,623
Capital outlay	99,103	5,867,131	2,635,171	-	-	1,987,142	10,588,547
Debt service							
Principal	24,706	-	-	-	1,319,899	-	1,344,605
Interest and fees	-	-	-	-	436,275	-	436,275
Total expenditures	4,377,817	6,778,460	2,635,171	621	1,756,174	3,299,010	18,847,253
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,543,836)	(1,532,577)	(649,397)	1,267,171	(91,147)	(1,298,976)	(3,848,762)
Other Financing Sources (Uses)							
Bond proceeds	-	-	-	-	-	395,851	395,851
Transfers in	2,238,410	-	939,687	-	105,401	349,001	3,632,499
Transfers out	(708,700)	-	(15,090)	(944,398)	(25,484)	(400,544)	(2,094,216)
Total other financing sources and uses	1,529,710	-	924,597	(944,398)	79,917	344,308	1,934,134
Net Change in Fund Balance	(14,126)	(1,532,577)	275,200	322,773	(11,230)	(954,668)	(1,914,628)
Fund Balance (Deficit), Beginning	1,930,835	1,101,555	(1,347,744)	2,135,102	2,905,108	1,315,969	8,040,825
Fund Balance (Deficit), Ending	\$ 1,916,709	\$ (431,022)	\$ (1,072,544)	\$ 2,457,875	\$ 2,893,878	\$ 361,301	\$ 6,126,197

City of Valley City, North Dakota

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities
Year Ended December 31, 2019

Net Change in Fund Balances - Total Governmental Funds	\$ (1,914,628)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:	
Capital outlay	10,588,547
Depreciation expense	(1,410,330)
The net effect of the disposal of capital assets is to decrease net position	(11,796)
Revenues in the statement of activities that do not provide current financial resources are deferred and not reported as revenues in the funds	25,510
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used	19,292
Interest payable is reported in the government wide statement of net position but is not recorded in the governmental funds	(6,295)
The issuance of long-term 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. Neither transaction, however, has any effect on net position. In the current period these amounts are:	
Debt issued	(395,851)
Capital lease retirement	24,706
Bond principal retirement	<u>1,319,899</u>
Change in Net Position of Governmental Activities	<u>\$ 8,239,054</u>

City of Valley City, North Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2019

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 1,168,200	\$ 1,127,673	\$ (40,527)
Special assessments	-	168,488	168,488
Licenses and permits	49,020	50,028	1,008
Intergovernmental revenue	416,150	1,033,396	617,246
Fines and forfeitures	90,000	95,002	5,002
Franchise fees	-	61,347	61,347
Miscellaneous	184,850	298,047	113,197
	<u>1,908,220</u>	<u>2,833,981</u>	<u>925,761</u>
Expenditures			
Current			
General government	1,126,671	1,050,550	76,121
Public safety	1,597,216	1,568,297	28,919
Public works	-	1,020,492	(1,020,492)
General government - other	43,350	40,542	2,808
Culture and recreation	38,300	172,372	(134,072)
Community development	-	310,479	(310,479)
Economic development	100	284	(184)
Miscellaneous	-	90,992	(90,992)
Capital outlay	49,900	99,103	(49,203)
Debt Service			
Principal	-	24,706	(24,706)
	<u>2,855,537</u>	<u>4,377,817</u>	<u>(1,522,280)</u>
Deficiency of Revenues Under Expenditures	(947,317)	(1,543,836)	(596,519)
Other Financing Sources (Uses)			
Transfers in	1,220,061	2,238,410	1,018,349
Transfers out	(443,100)	(708,700)	(265,600)
	<u>776,961</u>	<u>1,529,710</u>	<u>752,749</u>
Net Change in Fund Balance	<u>\$ (170,356)</u>	(14,126)	<u>\$ 156,230</u>
Fund Balance, Beginning		<u>1,930,835</u>	
Fund Balance, Ending		<u>\$ 1,916,709</u>	

City of Valley City, North Dakota
Proprietary Funds
Statement of Net Position
December 31, 2019

	Electric	Water	Sewer	Garbage	Total
Assets					
Current Assets					
Cash and cash equivalents	\$ 3,655,451	\$ -	\$ 811,328	\$ 354,624	\$ 4,821,403
Due from other funds	-	-	211,135	-	211,135
Accounts receivable - net					
Accounts	580,060	72,096	44,424	66,235	762,815
Accrued interest	-	850	89	-	939
Unbilled revenues	317,380	54,411	33,905	39,148	444,844
Inventories	590,428	167,151	-	-	757,579
Prepaid expenses	45,561	-	-	-	45,561
Due from other governmental units	-	2,780	13	91	2,884
Total current assets	5,188,880	297,288	1,100,894	460,098	7,047,160
Capital assets					
Land	114,385	147,572	113,242	49,494	424,693
Buildings and improvements	630,913	24,071,506	200,348	674,689	25,577,456
Machinery and equipment	4,918,063	1,944,150	508,515	1,691,396	9,062,124
Mains and lines	13,116,376	15,447,027	15,848,140	-	44,411,543
Less accumulated depreciation	(14,494,213)	(16,141,809)	(7,295,026)	(1,496,279)	(39,427,327)
Net capital assets	4,285,524	25,468,446	9,375,219	919,300	40,048,489
Unearned debits	-	3,940	-	-	3,940
Restricted cash	54,970	204,500	21,250	-	280,720
Total assets	9,529,374	25,974,174	10,497,363	1,379,398	47,380,309
Liabilities					
Current liabilities					
Accounts payable	509,202	37,544	5,686	40,178	592,610
Accrued interest payable	-	4,345	1,480	-	5,825
Customer deposits	54,970	-	-	-	54,970
Due to other funds	-	211,135	-	-	211,135
Other liabilities	74,893	4,696	862	2,397	82,848
Interfund special assessments payable	4,418	41,474	619	750	47,261
Current maturities of long-term debt	224,602	190,000	15,000	-	429,602
Total current liabilities	868,085	489,194	23,647	43,325	1,424,251
Long-term debt (net of current portion)					
Bonds payable	-	1,055,000	155,000	-	1,210,000
Interfund special assessments payable	21,429	218,855	4,746	3,000	248,030
Total long-term debt	21,429	1,273,855	159,746	3,000	1,458,030
Total liabilities	889,514	1,763,049	183,393	46,325	2,882,281
Net Position					
Net investment in capital assets	4,060,922	24,223,446	9,205,219	919,300	38,408,887
Restricted	-	204,500	21,250	-	225,750
Unrestricted	4,578,938	(216,821)	1,087,501	413,773	5,863,391
Total net position	\$ 8,639,860	\$ 24,211,125	\$ 10,313,970	\$ 1,333,073	\$ 44,498,028

City of Valley City, North Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2019

	Electric	Water	Sewer	Garbage	Total
Operating Revenues					
Utility sales and service charges	\$ 7,679,895	\$ 1,410,994	\$ 747,584	\$ 965,476	\$ 10,803,949
Forfeited discounts and penalties	4,491	724	456	559	6,230
Landfill fees	-	-	-	238,209	238,209
Total operating revenues	7,684,386	1,411,718	748,040	1,204,244	11,048,388
Operating Expenses					
Production and pumping	73,736	419,829	-	-	493,565
Cost of power	4,437,550	-	-	-	4,437,550
Distribution expense	369,047	369,894	195,296	-	934,237
Landfill and collections	-	-	-	852,197	852,197
Customer accounts	62,515	16,781	1,672	2,805	83,773
Customer service and information	11,825	-	-	-	11,825
Administration and general	718,805	287,440	115,613	234,856	1,356,714
Depreciation	552,589	1,302,700	382,547	76,342	2,314,178
Costs of services contributed to city	42,458	12,931	-	-	55,389
Total operating expenses	6,268,525	2,409,575	695,128	1,166,200	10,539,428
Operating Income (Loss)	1,415,861	(997,857)	52,912	38,044	508,960
Nonoperating Revenues (Expenses)					
Net merchandising revenue					
gross revenue of \$302,176	28,365	4,900	(1,709)	2,295	33,851
Grant revenue	-	149,369	-	-	149,369
Interest income	25,048	2,488	259	-	27,795
Interest on long-term debt	(1,153)	(31,178)	(2,066)	(236)	(34,633)
Total nonoperating revenues (expenses)	52,260	125,579	(3,516)	2,059	176,382
Income (Loss) Before Transfers	1,468,121	(872,278)	49,396	40,103	685,342
Transfers in (out)	(1,538,283)	629,777	(629,777)	-	(1,538,283)
Change in Net Position	(70,162)	(242,501)	(580,381)	40,103	(852,941)
Net Position, Beginning of Year	8,710,022	24,453,626	10,894,351	1,292,970	45,350,969
Net Position, End of Year	\$ 8,639,860	\$ 24,211,125	\$ 10,313,970	\$ 1,333,073	\$ 44,498,028

City of Valley City, North Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2019

	Electric	Water	Sewer	Garbage	Total
Operating Activities					
Receipts from customers and users	\$ 7,671,452	\$ 1,935,847	\$ 746,803	\$ 1,246,225	\$ 11,600,327
Payments for cost of power	(4,437,550)	-	-	-	(4,437,550)
Payments to employees and other vendors	(1,549,074)	(1,126,044)	(308,384)	(1,093,328)	(4,076,830)
Net cash from operating activities	<u>1,684,828</u>	<u>809,803</u>	<u>438,419</u>	<u>152,897</u>	<u>3,085,947</u>
Non-Capital Financing Activities					
Transfer (to) from other funds	(1,538,283)	629,777	(629,777)	-	(1,538,283)
Change in interfund balances	-	(966,709)	966,709	-	-
Net cash from (used for) non-capital financing activities	<u>(1,538,283)</u>	<u>(336,932)</u>	<u>336,932</u>	<u>-</u>	<u>(1,538,283)</u>
Capital and Related Financing Activities					
Property and equipment additions	(132,876)	(214,629)	(14,347)	(496,970)	(858,822)
Payments on long-term debt					
Principal	-	(185,000)	(15,000)	-	(200,000)
Interfund special assessments payable	(4,418)	(42,443)	(619)	(750)	(48,230)
Interest	(1,153)	(33,287)	(1,191)	(236)	(35,867)
Net cash used for capital and related financing activities	<u>(138,447)</u>	<u>(475,359)</u>	<u>(31,157)</u>	<u>(497,956)</u>	<u>(1,142,919)</u>
Investing Activity					
Interest and dividends from investments	25,048	2,488	259	-	27,795
Change in Cash and Cash Equivalents	33,146	-	744,453	(345,059)	432,540
Cash and Cash Equivalents - Beginning of Year (including restricted cash)	<u>3,677,275</u>	<u>204,500</u>	<u>88,125</u>	<u>699,683</u>	<u>4,669,583</u>
Cash and Cash Equivalents - End of Year (including restricted cash)	<u>\$ 3,710,421</u>	<u>\$ 204,500</u>	<u>\$ 832,578</u>	<u>\$ 354,624</u>	<u>\$ 5,102,123</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 1,415,861	\$ (997,857)	\$ 52,912	\$ 38,044	\$ 508,960
Adjustments to reconcile operating income (loss) to net cash from operating activities					
Depreciation	552,589	1,302,700	382,547	76,342	2,314,178
Other income	28,365	154,269	(1,709)	2,295	183,220
Changes in assets and liabilities					
Accounts receivable	(41,299)	369,860	472	39,686	368,719
Inventories	(309,040)	(9,409)	-	-	(318,449)
Prepaid expenses	(16,751)	-	-	-	(16,751)
Due from other governmental units	22,407	-	-	-	22,407
Unearned debits	-	180	-	-	180
Accounts payable	39,025	(12,328)	3,551	(5,303)	24,945
Customer deposits	(12,069)	-	-	-	(12,069)
Other liabilities	10,036	2,388	646	1,833	14,903
Compensated absences payable	(4,296)	-	-	-	(4,296)
Net cash from operating activities	<u>\$ 1,684,828</u>	<u>\$ 809,803</u>	<u>\$ 438,419</u>	<u>\$ 152,897</u>	<u>\$ 3,085,947</u>

Note 1 - Summary of Significant Accounting Policies

The City of Valley City was incorporated in 1883 and operates under a commission form of government. In 1991, the City passed a resolution for the City of Valley City to adopt a home rule charter. The accounting policies of the City conform to generally accepted accounting principles applicable to governmental units. The water, sewer, and electrical activities of the Valley City Public Works (VCPW) are nonregulated. The more significant of the government's accounting policies are described below.

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The City's significant accounting policies are described below:

Reporting Entity

The City's financial statements include all funds for which the City is financially accountable.

The City is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Additionally, the City is not included in any other governmental reporting entity.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

There are no component units reported within these financial statements.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this rule are charges from the City's electric, water and sewer utilities, and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported from the various functions concerned. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met. Although agency funds have no measurement focus, they also use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

General Fund – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

Permanent Flood Protection – This fund accounts for the resources accumulated and payments made for permanent flood protection projects.

Paving Projects – This fund accounts for the resources accumulated and payments made for city paving projects.

Infrastructure Renewal & Replacement – This fund accounts for the resources accumulated and payments made for infrastructure projects.

Debt Service Fund – This fund accounts for the resources accumulated and payments made for principal and interest on all general obligation and special assessment bonds of governmental funds.

The City reports the following major proprietary funds:

Electric – This fund accounts for the provision of electric service to the residents of the City.

Water – This fund accounts for the provision of water utility service to the residents of the City.

Sewer – This fund accounts for the provision of sanitary sewer service to the residents of the City.

Garbage – This fund accounts for the provision of sanitation and garbage removal service to the residents of the City.

Amounts reported as program revenues include the following: amounts received from those who purchase, use or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Other Significant Accounting Policies

Budgets and Budgetary Accounting

An annual budget is adopted only for the general fund. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgetary comparisons presented in this report are on this budgetary basis.

Appropriations are authorized by the city commission at the fund level, which is the legal level of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budget.

The budget is legally enacted through passage of a budget ordinance no later than October 1.

All unexpended appropriations lapse at year-end.

Any changes in the total budget of each fund must be approved by a majority vote of the city commission.

Cash and Cash Equivalents, and Restricted Cash

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The City considers cash equivalents to be certificates of deposit, money market funds, and other highly liquid investments with original maturities of three months or less.

Restricted cash consists of amounts that have been restricted to meet bond reserve requirements or set aside as customer deposits.

Inventories

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in proprietary funds when used. Proprietary fund inventories are presented on an average cost basis.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2019, are recorded as prepaid items in both government-wide and fund financial statements.

Receivable and Credit Policy

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are charged a late fee of ½% of the billing amount after 30 days from the invoice date. Payments on trade receivables are applied to the earliest unpaid invoices. The carrying amount of the trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), mains and lines, and vehicles are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value.

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

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10-50 years
Infrastructure	10-30 years
Machinery and equipment	5-20 years
Vehicles	5-10 years
Mains and lines	3-50 years

Compensated Absences

All regular employees are entitled to vacation time with pay based upon length of continuous service. Annual vacation leave may be accumulated a maximum of four weeks. Upon termination, employees are compensated for unused vacation leave.

All regular full-time or regular part-time employees shall accumulate sick leave, which is not a benefit earned by the employee such as annual leave. Temporary and part-time employees are not eligible to accumulate sick leave. Sick leave is to be used for any illness, injury or other medical reasons. Unused sick leave cannot be converted into annual leave hours. Upon reaching five years of employment, employees voluntarily leaving employment with the City will receive payment for accrued sick leave at the current rate of pay at separation as follows:

5+ years of employment	5%
10+ years of employment	10%
15+ years of employment	20%
20+ years of employment	40%
25+ years of employment	50%

Payments received for sick leave balances will have retirement contributions deducted. Employees accrue one day per month and may accumulate up to 124 days. Historically, employees have not used all sick leave earned.

Accumulated unpaid vested sick leave is accrued when incurred in government-wide proprietary fund financial statements. Such amounts, other than the current portion, are not accrued in governmental funds, but are recorded in the governmental activities in the government-wide statements.

Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued 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, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance – represents amounts that cannot be spent due to form such as inventories, prepaids, long-term loans, and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted Fund Balance – represents amounts that exist when constraints are placed on the use of resources that are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments (or) restrictions imposed by law through constitutional provisions or enabling legislation (i.e. Emergency fund).

Committed Fund Balance – represents amounts that can only be used for specific purposes pursuant to the constraints imposed by formal action of the City Commission. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it previously employed to commit those amounts. (Example would be legislation, resolution, or ordinance). (ie. Sales tax ordinance, budget ordinance)

Assigned Fund Balance – represents amounts constrained by the City’s intent to be used for a specific purpose but are not restricted or committed. The Commission has delegated the authority to assign these amounts to the City Administrator and the City Auditor. Assigned amounts or changes to Assigned amounts will later be presented to the Commission for review.

Unassigned Fund Balance – represents the remaining residual balances that have not been restricted, committed, or assigned to specific purposes within the General Fund.

The City Commission establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use nonspendable resources first, restricted second, committed third, assigned fourth and unassigned last.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the City’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred inflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Self-Insurance

The City implemented a self-insurance medical plan in March 1985 which includes a stop-loss provision at \$30,000 per year for any one individual. The Aggregate Stop-Loss Attachment Point is \$559,445. Aggregate claims in excess of this amount are paid by the city’s insurer. Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can be reasonably estimated.

Risk Management

The City is exposed to various risks related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently participates in the North Dakota insurance reserve fund, North Dakota fire and tornado fund, state bonding fund and North Dakota Workforce Safety Insurance to cover claims. There have been no settled claims exceeding insurance coverage in any of the past three years.

Deferred Inflows of Resources

This separate financial statement element is reported in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, unavailable revenue, reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Note 2 - Compliance and Stewardship

Deficit Fund Balance

Fund balance deficits existed in certain individual funds at December 31, 2019, as follows:

Permanent Flood Protection	\$ 431,022
Paving Projects	1,072,544
Nonmajor Governmental Funds	
Emergency	39,658
Storm Sewer Projects	1,034,624
DOT Misc Projects	361
Underground Construction	3,861
NW & West Storm Sewer	18,738

No formal action is required or anticipated regarding the deficits. These deficits are expected to be eliminated in future years through future special assessment tax collections, transfers, and sale of bonds.

Expenditures in Excess of Appropriations

Expenditures in the general fund exceeded budget appropriations by \$1,522,280. These excess expenditures were funded by revenues in excess of budget and fund balance.

Note 3 - Deposits and Investments

Deposits

In accordance with the North Dakota Century Code, the City maintains deposits at depository banks covered by Federal Depository Insurance. Century Code requires that all City deposits be protected by insurance, collateral or surety bond. The market value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance or bonds. As of December 31, 2019, the City's deposits include savings accounts, money market funds, and certificates of deposit.

Investments

Statutes authorize the City to invest in obligations of the U.S. Treasury Investments and U.S. agencies, bankers' acceptances, certain repurchase agreements, and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Beyond what is stated in the Century Code, the City does not have a formal policy to further limit exposure to custodial credit risk. As of December 31, 2019, the City's deposits were either fully insured or properly collateralized, and have no custodial credit risk.

Interest Rate Risk – Investments

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The following table presents the City's deposit and investment balances at December 31, 2019

Type	Fair Value	Maturities (in Years)	
		N/A	< 1
Cash and cash equivalents			
Deposits	\$ 10,203,157	\$ 10,203,157	\$ -
Petty cash	1,900	1,900	-
Certificates of deposit	225,750	-	225,750
	<u>\$ 10,430,807</u>	<u>\$ 10,205,057</u>	<u>\$ 225,750</u>

Cash and investments are included on the basic financial statements as follows:

Cash and cash equivalents - Statement of Net Position	\$ 9,648,662
Restricted cash - Statement of Net Position	<u>782,145</u>
	<u><u>\$ 10,430,807</u></u>

Note 4 - Property Taxes and Special Assessments

Property Taxes

Property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; 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 is allowed if all taxes are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Taxes which remain unpaid at December 31 are classified as delinquent taxes receivable and the portion not available within 60 days is fully offset by deferred revenue because it is not available to finance current expenditures. The delinquent taxes receivable represents the past five years of uncollected tax levies.

Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The assessments are collectible over a term of years generally consistent with the term of years of the related bond issue. Collection of annual installments (including interest) is handled by the county and remitted to the City at the same time property tax settlements are made. Property owners are allowed to prepay total future installments plus accrued interest without prepayment penalties. Special assessments are generally collected by the county and remitted to the City at the same time the tax settlements are made. Special assessments receivable includes the following components:

Delinquent – amounts billed to property owners but not paid

Deferred – assessment installments that will be billed to property owners in future years

Interfund – assessment installments for proprietary fund owned property not yet paid

Note 5 - Capital Assets

Capital asset activity for the year ended December 31, 2019 was as follows:

Governmental Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$173,800	\$ -	\$ -	\$ 173,800
Construction in progress	30,416,079	10,131,942	764,641	39,783,380
Total capital assets not being depreciated	30,589,879	10,131,942	764,641	39,957,180
Capital assets, being depreciated				
Infrastructure	39,953,039	764,641	-	40,717,680
Buildings and improvements	2,107,806	23,001	-	2,130,807
Machinery and equipment	1,312,337	158,690	8,815	1,462,212
Vehicles	2,950,111	274,914	42,072	3,182,953
Total capital assets being depreciated	46,323,293	1,221,246	50,887	47,493,652
Less accumulated depreciation for				
Infrastructure	6,741,239	1,017,943	-	7,759,182
Buildings and improvements	1,728,908	82,400	-	1,811,308
Machinery and equipment	1,037,791	90,031	8,815	1,119,007
Vehicles	1,945,670	219,956	30,276	2,135,350
Total accumulated depreciation	11,453,608	1,410,330	39,091	12,824,847
Total capital assets being depreciated, net	34,869,685	(189,084)	11,796	34,668,805
Governmental activities capital assets, net	\$ 65,459,564	\$ 9,942,858	\$ 776,437	\$ 74,625,985

City of Valley City, North Dakota

Notes to Financial Statements

December 31, 2019

Business-Type Activities	Beginning Balance	Increases and Transfers	Decreases and Transfers	Ending Balance
Capital assets, not being depreciated				
Land	\$ 424,693	\$ -	\$ -	\$ 424,693
Construction in progress	422,928	-	422,928	-
Total capital assets not being depreciated	<u>847,621</u>	<u>-</u>	<u>422,928</u>	<u>424,693</u>
Capital assets, being depreciated				
Buildings and improvements	25,288,370	289,086	-	25,577,456
Machinery and equipment	8,192,969	869,155	-	9,062,124
Mains and lines	44,288,034	391,523	268,014	44,411,543
Total capital assets being depreciated	<u>77,769,373</u>	<u>1,549,764</u>	<u>268,014</u>	<u>79,051,123</u>
Less accumulated depreciation for				
Buildings and improvements	5,850,936	446,027	-	6,296,963
Machinery and equipment	6,850,522	723,660	-	7,574,182
Mains and lines	24,411,691	1,144,491	-	25,556,182
Total accumulated depreciation	<u>37,113,149</u>	<u>2,314,178</u>	<u>-</u>	<u>39,427,327</u>
Total capital assets being depreciated, net	<u>40,656,224</u>	<u>(764,414)</u>	<u>268,014</u>	<u>39,623,796</u>
Business-type activities capital assets, net	<u>\$ 41,503,845</u>	<u>\$ (764,414)</u>	<u>\$ 690,942</u>	<u>\$ 40,048,489</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities		
General government		\$ 96,088
Public safety		125,704
Public works		1,175,553
Culture and recreation		12,985
Total depreciation expense - governmental activities		<u>\$ 1,410,330</u>
Business-Type Activities		
Electric		\$ 552,589
Water		1,302,700
Sewer facility		382,547
Garbage		76,342
Total depreciation expense - business-type activities		<u>\$ 2,314,178</u>

Note 6 - Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Special assessment bonds	\$11,780,128	\$ -	\$ 974,451	\$ 10,805,677	\$ 974,451
Sales tax revenue bonds	7,469,893	-	345,448	7,124,445	346,132
PFA loan	-	395,851	-	395,851	31,000
Capital lease	380,737	-	24,706	356,031	24,706
Compensated absences	147,698	107,755	127,047	128,406	128,406
	<u>\$ 19,778,456</u>	<u>\$ 503,606</u>	<u>\$ 1,471,652</u>	<u>\$ 18,810,410</u>	<u>\$ 1,504,695</u>
Governmental activity long-term debt					
Business-type activities					
Revenue bonds	\$1,615,000	\$ -	\$ 200,000	\$ 1,415,000	\$ 205,000
Compensated absences	228,898	148,669	152,965	224,602	224,602
	<u>\$ 1,843,898</u>	<u>\$ 148,669</u>	<u>\$ 352,965</u>	<u>\$ 1,639,602</u>	<u>\$ 429,602</u>
Business-type activity long-term debt					

General obligation bonds are recorded in the governmental activities in the government-wide statement and are backed by the full faith and credit of the City. These bonds are payable from the debt service funds primarily through property tax levies.

General obligation improvement bonds are also recorded as a liability in the governmental activities in the government-wide statement and are payable from the debt service funds primarily through special assessments levied and collected for local improvements. The City has a commitment relating to a pledge of full faith and credit on the special assessment bonds. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in the special assessment districts are insufficient to retire outstanding bonds.

General obligation revenue bonds are recorded as a liability in the public utilities fund and are payable from public utility revenues.

The City has pledged future sales tax revenues, net of specified operating expenses, to repay \$2.9 million in sales tax revenue bonds issued in 2013, \$860,614 in sales tax revenue bonds issued in 2016, \$1.39 million in sales tax revenue bonds issued in 2017, and \$3.2894 million in sales tax revenue bonds issued in 2018. Proceeds from the bonds were used for economic development, job creation, and for financing the local share of the Permanent Flood Protection project. Principal and interest paid for the current year was \$476,650. Net sales tax revenue totaled \$2,285,919 for the year.

The \$1.975 million Refunding Improvement Bonds issued in 2018, 2017 Refunding Improvement Bonds, and 2011 Special Assessment Refunding Bonds were special assessment bonds. North Dakota state law requires that these be called refunding bonds because warrants are the first issuance that are refunded with the bond issuance.

During the year ended December 31, 2019, the city was awarded a \$746,000 loan through the North Dakota Public Finance Authority under the Clean Water State Revolving Fund Program to finance construction of a storm sewer system. As of December 31, 2019, the city received \$395,851 in loan funds. The remaining balance will be received as eligible expenses are incurred for the project. The loan bears an interest rate of 1.50%, and requires semiannual interest payments and annual principal payments commencing March 2020. The loan will be paid through the debt service via special assessments levied upon benefitting properties.

The capital lease agreement requires annual lease payments and monthly interest payments, at an interest rate from 3.50%. Payments began June 2014 and will continue through June 2021. Payments are made out of the general fund.

The capital lease consists of a motorgrader for \$509,610 with total accumulated depreciation of \$458,649 as of December 31, 2019. Maturities of principal and interest payments are as follows:

<u>Years Ending December 31,</u>	<u>Capital lease</u>	
	<u>Principal</u>	<u>Interest</u>
2020	25,585	12,212
2021	330,446	5,929
Total	<u>\$ 356,031</u>	<u>\$ 18,141</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in substantial compliance with significant limitations and restrictions.

The annual requirements to amortize all bonded debt and special assessments outstanding as of December 31, 2019, are as follows:

<u>Years Ending December 31,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	1,425,659	422,936	205,000	10,595
2021	1,416,064	393,227	210,000	7,750
2022	1,381,620	362,175	120,000	4,900
2023	1,357,399	330,426	120,000	4,300
2024	1,404,474	297,453	120,000	3,700
2025-2029	5,376,879	1,013,178	640,000	8,450
2030-2034	2,621,300	492,682	-	-
2035-2039	1,630,297	220,242	-	-
2040-2044	1,011,472	97,490	-	-
2045-2048	700,809	24,209	-	-
Total	<u>\$ 18,325,973</u>	<u>\$ 3,654,018</u>	<u>\$ 1,415,000</u>	<u>\$ 39,695</u>

City of Valley City, North Dakota

Notes to Financial Statements

December 31, 2019

Bonds Payable	<u>Interest Rate</u>	<u>Final Year of Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
Governmental activities				
2003 Bridgeview Estates				
Special Assessment Bonds	5.80	2024	\$ 338,460	\$ 126,722
Tax Increment Financing Bonds of 2008	4.50	2024	825,000	353,955
2011 Special Assessment Refunding Bonds	3.55 - 4.00	2031	4,090,000	1,785,000
2013 Refunding Improvement Bond	0.35 - 2.20	2026	955,000	380,000
2013 Sales Tax Revenue Bond	0.50 - 3.00	2028	2,900,000	1,840,000
2015 Improvement Bond	2.00 - 3.25	2040	4,545,000	3,365,000
2016 Refunding Improvement Bond	0.80 - 1.65	2026	1,295,000	870,000
2016 Sales Tax Revenue Bond	1.50	2047	860,614	783,144
2017 Refunding Improvement Bond	2.91	2047	2,150,000	2,000,000
2017 Sales Tax Revenue Bond	1.50	2047	1,392,500	1,309,809
2018 Refunding Improvement Bond	3.00 - 4.00	2038	1,975,000	1,925,000
2018 Sales Tax Revenue Bond	1.50	2048	3,289,400	3,191,492
2019 Clean Water State Revolving Fund Program	1.50	2039	395,851	395,851
Total				<u>\$ 18,325,973</u>
Business-type activities				
2002 Drinking Water Revolving Loan Fund	2.5	2021	\$ 1,500,000	\$ 180,000
Wastewater Treatment Revenue				
Bond, series 2009	0.5	2025	260,000	170,000
Water Treatment Revenue Bond, series 2009	0.5	2030	4,485,031	1,065,000
Total				<u>\$ 1,415,000</u>

Compensated Absences

Compensated absences for governmental funds is recorded as a liability in the governmental activities in the government-wide statement. This liability matures only upon qualified retirements or terminations and is paid out of the general fund.

Conduit Debt

From time to time, the City has approved issuance of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2019, there were series of Industrial Revenue Bonds outstanding; the aggregate principal amount payable is \$2,225,000. Neither the State of North Dakota nor the City of Valley City has a central repository. The only requirement for this type of issue is to request the amount needed for City approval, most times this amount is in excess of the actual amount issued. When completely paid or called they must notify the City of this event.

Note 7 - Interfund Receivables, Payables, and Transfers

Interfund receivables/payables are used to record accrued obligations between funds.

	Due From Other Funds	Due To Other Funds
Infrastructure Renewal & Replacement	\$ 2,240,074	\$ -
Permanent Flood Protection	-	947,152
Paving Projects	-	946,210
Other governmental funds	700,441	1,047,153
Water	-	211,135
Sewer	211,135	-
	<u>\$ 3,151,650</u>	<u>\$ 3,151,650</u>

A summary of the City's interfund special assessment balances at December 31, 2019, is as follows:

	Interfund Special Assessments Receivable	Interfund Special Assessments Payable
General	\$ 400	\$ -
Debt Service	294,891	-
Electric	-	25,847
Water	-	260,329
Sewer	-	5,365
Garbage	-	3,750
	<u>\$ 295,291</u>	<u>\$ 295,291</u>

A summary of the City's interfund transfers is as follows:

	Transfer In	Transfer Out
Governmental Funds		
General	\$ 2,238,410	\$ 708,700
Infrastructure Renewal & Replacement	-	944,398
Paving Projects	939,687	15,090
Debt Service	105,401	25,484
Non-major governmental	349,001	400,544
Total governmental funds	3,632,499	2,094,216
Proprietary Funds		
Electric	-	1,538,283
Total transfers	\$ 3,632,499	\$ 3,632,499

Transfers are made for funding various projects, operational expenses, and meeting debt service requirements.

Note 8 - Pension Plan

The City contributes to the self-administered trustee money purchase pension plan, a defined contribution profit-sharing plan, for substantially all employees. Benefit terms, including contribution requirements, for the plan are established and may be amended by the City's Board. The City is required to contribute, at a maximum, 10% of the employees' recognized compensation. The contributions by the employer are credited to a separate bookkeeping account for each individual. Pension contributions and expense in 2019 was \$325,087 including Public Works in the amount of \$188,599. The City had a liability to the plan at December 31, 2019, of \$5,575.

Note 9 - Self-Insurance

The City implemented a self-insurance medical plan in March 1985 which includes a stop-loss provision at \$30,000 per year for any one individual. All aggregate claims in excess of \$559,445 are paid by the city's insurer. Liabilities are recorded when a determinable claim or loss has been incurred and the amount of the loss can be reasonably estimated. Starting in 2020 the City changed from self-insurance medical plan to a fully insured fund.

	2019	2018
Claims incurred but not reported at beginning of year	\$ 5,974	\$ 28,775
Claims incurred	540,483	439,811
Claims paid	(522,160)	(462,612)
Claims incurred but not reported at end of year	\$ 24,297	\$ 5,974

Note 10 - Commitments

Litigation and Potential Exposure – In the ordinary course of its business, the City is party to legal proceedings as a plaintiff or defendant. The financial impact of remaining actions is not determinable at December 31, 2019, but in the opinion of management and legal counsel the ultimate disposition of any or all of these proceedings will not have a material effect on the City's financial position.

Wholesale Firm Power – Under its wholesale power agreement, the electric utility is committed to purchase its electric power and energy requirements from the Western Area Power Administration (WAPA) until December 31, 2050. The rates paid therefore are reviewed on an as-required basis as determined by WAPA.

Under a supplemental power agreement, the electric utility is committed to purchase its electric power and energy needs that are over and above that available from WAPA from the Missouri River Energy Services until January 1, 2030. This base term may be extended for successive 10-year periods. The rates paid therefore are subject to review annually.

Construction Commitments – The City has active construction projects as of December 31, 2019. For the ongoing Permanent Flood Protection project throughout Valley City the following commitments are outstanding: Phase III Permanent Flood Protection Construction commitment of \$2,765,758 with a 20% local share of \$553,152.

The City entered into a contract with the NDDOT for 5th Ave NW reconstruction project in December 2019 for \$3,852,699 of which \$1,850,000 is funded by NDDOT, \$290,200 funded by SWC with a local share of \$1,712,499.

Note 11 - Subsequent Event

Subsequent to year-end, the City has been impacted by the effects of the world-wide coronavirus pandemic. The City is closely monitoring its operations and reserves and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the City's management does not expect the pandemic to have a significant impact on operations and reserves.

Note 12 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City.

The first statement issued but not yet implemented that will significantly affect the City is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the City in the year ended December 31, 2020.

The second statement issued but not yet implemented that will significantly affect the City is Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the City in the year ended December 31, 2022.

The third statement issued but not yet implemented that will significantly affect the City is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the City in the year ended December 31, 2021.

The final statement issued but not yet implemented that will significantly affect the City is Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required noted disclosures. The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognized assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. This statement will be implemented at the City in the year ended December 31, 2022.

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



Supplementary Information
December 31, 2019

City of Valley City, North Dakota

City of Valley City, North Dakota
 General Fund, By Department
 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
 Year Ended December 31, 2019

	General Operations Department	City Financed Special Assessment Projects Department	Building Reserve Department	Renewal and Replacement Department	Street Equipment Renewal and Replacement Department	Financing Reserves (BN) Department	Sewer Renewal & Replacement Department	Streets Department	Total General Fund
Revenues									
General property taxes	\$ 1,127,673	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,127,673
Special assessments	85	168,403	-	-	-	-	-	-	168,488
Franchise fees	-	-	-	-	-	-	61,347	-	61,347
Licenses and permits	50,028	-	-	-	-	-	-	-	50,028
Intergovernmental revenue	605,330	-	-	-	-	-	-	428,066	1,033,396
Fines and forfeitures	95,002	-	-	-	-	-	-	-	95,002
Miscellaneous revenue	233,293	-	-	5,400	2,300	-	-	57,054	298,047
Total revenues	2,111,411	168,403	-	5,400	2,300	-	61,347	485,120	2,833,981
Expenditures									
Current									
General government	1,050,550	-	-	-	-	-	-	-	1,050,550
Public safety	1,568,297	-	-	-	-	-	-	-	1,568,297
Public works	-	-	-	-	-	-	-	1,020,492	1,020,492
General government - other	40,542	-	-	-	-	-	-	-	40,542
Culture and recreation	172,372	-	-	-	-	-	-	-	172,372
Community development	-	-	9,896	300,583	-	-	-	-	310,479
Economic development	284	-	-	-	-	-	-	-	284
Miscellaneous	-	-	-	-	-	-	90,992	-	90,992
Capital outlay	31,142	-	-	-	67,961	-	-	-	99,103
Debt Service Principal	-	-	-	-	24,706	-	-	-	24,706
Total expenditures	2,863,187	-	9,896	300,583	92,667	-	90,992	1,020,492	4,377,817
Excess (Deficiency) of Revenues over (Under) Expenditures	(751,776)	168,403	(9,896)	(295,183)	(90,367)	-	(29,645)	(535,372)	(1,543,836)
Other Financing Sources (Uses)									
Transfers in	1,220,061	-	39,896	200,170	130,000	-	-	648,283	2,238,410
Transfers out	(460,066)	(78,616)	-	-	-	-	(170,018)	-	(708,700)
Total other financing sources and uses	759,995	(78,616)	39,896	200,170	130,000	-	(170,018)	648,283	1,529,710
Net Change in Fund Balance	8,219	89,787	30,000	(95,013)	39,633	-	(199,663)	112,911	(14,126)
Fund Balance (Deficit), Beginning	1,325,444	(431,049)	30,000	188,532	200,759	523,480	185,981	(92,312)	1,930,835
Fund Balance (Deficit), Ending	\$ 1,333,663	\$ (341,262)	\$ 60,000	\$ 93,519	\$ 240,392	\$ 523,480	\$ (13,682)	\$ 20,599	\$ 1,916,709

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Balance Sheet
 December 31, 2019

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 563,551	\$ -	\$ 563,551
Due from other funds	700,441	-	700,441
Restricted cash	9,052	-	9,052
Receivables			
Accounts	7,652	-	7,652
Taxes receivable - delinquent	4,686	-	4,686
Special Assessments			
Current	5,625	-	5,625
Deferred	48,750	-	48,750
Due from other governmental units	273,846	-	273,846
Total assets	<u>\$ 1,613,603</u>	<u>\$ -</u>	<u>\$ 1,613,603</u>
Liabilities			
Accounts payable	\$ 95,999	\$ 50,089	\$ 146,088
Due to other funds	39,658	1,007,495	1,047,153
Total liabilities	<u>135,657</u>	<u>1,057,584</u>	<u>1,193,241</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	4,686	-	4,686
Unavailable revenue-special assessments	54,375	-	54,375
Total deferred inflows of resources	<u>59,061</u>	<u>-</u>	<u>59,061</u>
Fund balance (deficit)			
Restricted			
Community development	1,448,417	-	1,448,417
Library services	1,074	-	1,074
Emergency services	9,052	-	9,052
Unassigned	(39,658)	(1,057,584)	(1,097,242)
Total fund balance (deficit)	<u>1,418,885</u>	<u>(1,057,584)</u>	<u>361,301</u>
Total liabilities, deferred inflows and fund balance (deficit)	<u>\$ 1,613,603</u>	<u>\$ -</u>	<u>\$ 1,613,603</u>

City of Valley City, North Dakota
 Nonmajor Governmental Funds
 Combined Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2019

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues			
General property taxes	\$ 168,785	\$ -	\$ 168,785
Intergovernmental revenue	14,883	586,583	601,466
Sales tax	1,226,485	-	1,226,485
Miscellaneous revenue	3,298	-	3,298
	<u>1,413,451</u>	<u>586,583</u>	<u>2,000,034</u>
Expenditures			
General government - other	313,440	-	313,440
Public safety	140,602	-	140,602
Culture and recreation	145,540	-	145,540
Community development	551,276	-	551,276
Capital outlay	-	1,987,142	1,987,142
Other	161,010	-	161,010
	<u>1,311,868</u>	<u>1,987,142</u>	<u>3,299,010</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	101,583	(1,400,559)	(1,298,976)
Other Financing Sources (Uses)			
Bond proceeds	-	395,851	395,851
Transfers in	-	349,001	349,001
Transfers out	(345,462)	(55,082)	(400,544)
	<u>(345,462)</u>	<u>689,770</u>	<u>344,308</u>
Net Change in Fund Balance	(243,879)	(710,789)	(954,668)
Fund Balance (Deficit), Beginning of Year	<u>1,662,764</u>	<u>(346,795)</u>	<u>1,315,969</u>
Fund Balance (Deficit), End of Year	<u>\$ 1,418,885</u>	<u>\$ (1,057,584)</u>	<u>\$ 361,301</u>

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2019

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	City Sales Tax Economic	City Sales Tax Property
Assets						
Cash and cash equivalents	\$ 1,793	\$ 12,495	\$ -	\$ -	\$ 304,635	\$ 44,369
Due from other funds	-	-	-	-	700,441	-
Restricted cash	-	-	-	-	-	-
Receivables						
Accounts	-	-	-	-	-	-
Taxes receivable - delinquent	1,026	-	-	3,660	-	-
Special Assessments						
Current	-	5,625	-	-	-	-
Deferred	-	48,750	-	-	-	-
Due from other governmental units	302	-	-	1,074	116,987	41,781
Total assets	\$ 3,121	\$ 66,870	\$ -	\$ 4,734	\$ 1,122,063	\$ 86,150
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 93,485	\$ -
Due to other funds	-	-	39,658	-	-	-
Total liabilities	-	-	39,658	-	93,485	-
Deferred Inflows of Resources						
Unavailable revenue - property taxes	1,026	-	-	3,660	-	-
Unavailable revenue - special assessments	-	54,375	-	-	-	-
Total deferred inflow of resources	1,026	54,375	-	3,660	-	-
Fund balance						
Restricted for						
Community development	2,095	12,495	-	-	1,028,578	86,150
Library services	-	-	-	1,074	-	-
Emergency services	-	-	-	-	-	-
Unassigned	-	-	(39,658)	-	-	-
Total fund balance	2,095	12,495	(39,658)	1,074	1,028,578	86,150
Total liabilities, deferred inflows, and fund balance	\$ 3,121	\$ 66,870	\$ -	\$ 4,734	\$ 1,122,063	\$ 86,150

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Balance Sheet
 December 31, 2019

	City Sales Tax Image Enhancement	City Sales Tax School Bond	Counteract Fund	Motel Occupancy	Restaurant Tax	Total Nonmajor Special Revenue Funds
Assets						
Cash and cash equivalents	\$ 47,625	\$ 64,839	\$ -	\$ 29,268	\$ 58,527	\$ 563,551
Due from other funds	-	-	-	-	-	700,441
Restricted cash	-	-	9,052	-	-	9,052
Receivables						
Accounts	-	-	-	7,652	-	7,652
Taxes receivable - delinquent	-	-	-	-	-	4,686
Special Assessments						
Current	-	-	-	-	-	5,625
Deferred	-	-	-	-	-	48,750
Due from other governmental units	8,356	83,562	-	-	21,784	273,846
Total assets	\$ 55,981	\$ 148,401	\$ 9,052	\$ 36,920	\$ 80,311	\$ 1,613,603
Liabilities						
Accounts payable	\$ 1,254	\$ -	\$ -	\$ 1,260	\$ -	\$ 95,999
Due to other funds	-	-	-	-	-	39,658
Total liabilities	1,254	-	-	1,260	-	135,657
Deferred Inflows of Resources						
Unavailable revenue - property taxes	-	-	-	-	-	4,686
Unavailable revenue - special assessments	-	-	-	-	-	54,375
Total deferred inflow of resources	-	-	-	-	-	59,061
Fund balance						
Restricted for:						
Community development	54,727	148,401	-	35,660	80,311	1,448,417
Library services	-	-	-	-	-	1,074
Emergency services	-	-	9,052	-	-	9,052
Unassigned	-	-	-	-	-	(39,658)
Total fund balance	54,727	148,401	9,052	35,660	80,311	1,418,885
Total liabilities, deferred inflows, and fund balance	\$ 55,981	\$ 148,401	\$ 9,052	\$ 36,920	\$ 80,311	\$ 1,613,603

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2019

	City Share of Special Assessments	Special Assessment Deficiency	Emergency	Library	City Sales Tax Economic	City Sales Tax Property
Revenues						
General property taxes	\$ 35,933	\$ -	\$ -	\$ 132,852	\$ -	\$ -
Intergovernmental revenue	1,122	-	-	13,761	-	-
Sales tax	-	-	-	-	351,706	207,520
Miscellaneous revenue	-	1,319	-	-	1,939	-
Total revenues	37,055	1,319	-	146,613	353,645	207,520
Expenditures						
General government - other	-	-	-	-	-	-
Public safety	-	-	140,602	-	-	-
Culture and recreation	-	-	-	145,540	-	-
Community development	38,539	-	-	-	512,737	-
Other	-	2,827	-	-	-	-
Total expenditures	38,539	2,827	140,602	145,540	512,737	-
Excess (deficiency) of revenues over (under) expenditures	(1,484)	(1,508)	(140,602)	1,073	(159,092)	207,520
Other financing uses						
Transfers out	-	-	-	-	-	(220,000)
Net change in fund balance	(1,484)	(1,508)	(140,602)	1,073	(159,092)	(12,480)
Fund balance, beginning of year	3,579	14,003	100,944	1	1,187,670	98,630
Fund balance, end of year	\$ 2,095	\$ 12,495	\$ (39,658)	\$ 1,074	\$ 1,028,578	\$ 86,150

City of Valley City, North Dakota
 Nonmajor Special Revenue Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2019

	<u>City Sales Tax Image Enhancement</u>	<u>City Sales Tax School Bond</u>	<u>Counteract Fund</u>	<u>Motel Occupancy</u>	<u>Restaurant Tax</u>	<u>Total Nonmajor Special Revenue Funds</u>
Revenues						
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 168,785
Intergovernmental revenue	-	-	-	-	-	14,883
Sales tax	41,504	415,041	-	88,418	122,296	1,226,485
Miscellaneous revenue	40	-	-	-	-	3,298
Total revenues	<u>41,544</u>	<u>415,041</u>	<u>-</u>	<u>88,418</u>	<u>122,296</u>	<u>1,413,451</u>
Expenditures						
General government - other	-	230,000	-	83,440	-	313,440
Public safety	-	-	-	-	-	140,602
Culture and recreation	-	-	-	-	-	145,540
Community development	-	-	-	-	-	551,276
Other	47,179	-	-	-	111,004	161,010
Total expenditures	<u>47,179</u>	<u>230,000</u>	<u>-</u>	<u>83,440</u>	<u>111,004</u>	<u>1,311,868</u>
Excess (deficiency) of revenues over (under) expenditures	(5,635)	185,041	-	4,978	11,292	101,583
Other financing uses						
Transfers out	-	(105,401)	(20,061)	-	-	(345,462)
Net change in fund balance	(5,635)	79,640	(20,061)	4,978	11,292	(243,879)
Fund balance, beginning of year	<u>60,362</u>	<u>68,761</u>	<u>29,113</u>	<u>30,682</u>	<u>69,019</u>	<u>1,662,764</u>
Fund balance, end of year	<u>\$ 54,727</u>	<u>\$ 148,401</u>	<u>\$ 9,052</u>	<u>\$ 35,660</u>	<u>\$ 80,311</u>	<u>\$ 1,418,885</u>

City of Valley City, North Dakota
 Nonmajor Capital Projects Funds
 Combining Balance Sheet
 December 31, 2019

	Storm Sewer Projects	DOT Misc Projects	Underground Construction	NW & West Storm Sewer	Total Nonmajor Capital Projects Funds
Assets					
Total assets	\$ -	\$ -	\$ -	\$ -	\$ -
Liabilities and Fund Balance (Deficit)					
Liabilities					
Accounts payable	\$ 50,089	\$ -	\$ -	\$ -	\$ 50,089
Due to other funds	984,535	361	3,861	18,738	1,007,495
Total liabilities	1,034,624	361	3,861	18,738	1,057,584
Fund Balance (Deficit)					
Unassigned	(1,034,624)	(361)	(3,861)	(18,738)	(1,057,584)
Total fund balance (deficit)	(1,034,624)	(361)	(3,861)	(18,738)	(1,057,584)
Total liabilities and fund balance (deficit)	\$ -	\$ -	\$ -	\$ -	\$ -

City of Valley City, North Dakota
 Nonmajor Capital Projects Funds
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Year Ended December 31, 2019

	<u>Sidewalk Curb & Gutter Projects</u>	<u>Storm Sewer Projects</u>	<u>Watermain Projects</u>	<u>Underground Construction</u>	<u>NW & West Storm Sewer</u>	<u>Total Nonmajor Capital Projects Funds</u>
Revenues						
Intergovernmental revenue	\$ -	\$ 586,583	\$ -	\$ -	\$ -	\$ 586,583
Expenditures						
Capital outlay	125,758	1,841,320	359	5,863	13,842	1,987,142
Deficiency of revenues under expenditures	(125,758)	(1,254,737)	(359)	(5,863)	(13,842)	(1,400,559)
Other financing sources						
Bond proceeds	-	395,851	-	-	-	395,851
Underwriter's discount	-	-	-	-	-	-
Transfers in	150,309	-	15,977	182,715	-	349,001
Transfers out	-	-	(33,461)	(21,621)	-	(55,082)
	<u>150,309</u>	<u>395,851</u>	<u>(17,484)</u>	<u>161,094</u>	<u>-</u>	<u>689,770</u>
Net change in fund balance	24,551	(858,886)	(17,843)	155,231	(13,842)	(710,789)
Fund balance (deficit), beginning of year	<u>(24,551)</u>	<u>(175,738)</u>	<u>17,482</u>	<u>(159,092)</u>	<u>(4,896)</u>	<u>(346,795)</u>
Fund balance (deficit), end of year	<u>\$ -</u>	<u>\$ (1,034,624)</u>	<u>\$ (361)</u>	<u>\$ (3,861)</u>	<u>\$ (18,738)</u>	<u>\$ (1,057,584)</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Revenues – Budget to Actual
 Year Ended December 31, 2019

	Original and Final Budget	Actual Amounts	Variance With Final Budget
Revenues			
General property taxes	\$ 1,168,200	\$ 1,127,673	\$ (40,527)
Special assessments	-	85	85
Licenses and permits	49,020	50,028	1,008
Intergovernmental revenue	416,150	605,330	189,180
Fines and forfeitures	90,000	95,002	5,002
Miscellaneous	184,850	233,293	48,443
Total revenues	<u>1,908,220</u>	<u>2,111,411</u>	<u>203,191</u>
Expenditures			
Current			
General government	1,126,671	1,050,550	76,121
Public safety	1,597,216	1,568,297	28,919
General government - other	43,350	40,542	2,808
Culture and recreation	38,300	172,372	(134,072)
Economic development	100	284	(184)
Capital outlay	49,900	31,142	18,758
Total expenditures	<u>2,855,537</u>	<u>2,863,187</u>	<u>(7,650)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(947,317)	(751,776)	195,541
Other Financing Sources (Uses)			
Transfers in	1,220,061	1,220,061	-
Transfers out	(443,100)	(460,066)	(16,966)
Total other financing sources and uses	<u>776,961</u>	<u>759,995</u>	<u>(16,966)</u>
Net Change in Fund Balance	<u>\$ (170,356)</u>	8,219	<u>\$ 178,575</u>
Fund Balance, Beginning		<u>1,325,444</u>	
Fund Balance, Ending		<u>\$ 1,333,663</u>	

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Expenditures			
General Government			
Council and mayor			
Salaries	\$ 57,400	\$ 57,021	\$ 379
Miscellaneous expenditures	8,700	9,302	(602)
	<u>66,100</u>	<u>66,323</u>	<u>(223)</u>
Municipal court			
Salaries	90,697	86,864	3,833
Legal	3,500	3,796	(296)
Miscellaneous expense	18,140	8,769	9,371
	<u>112,337</u>	<u>99,429</u>	<u>12,908</u>
Assessor			
Salaries	144,593	144,917	(324)
Travel	1,000	649	351
BCBS self funding claims	-	-	-
Miscellaneous expense	23,046	21,006	2,040
	<u>168,639</u>	<u>166,572</u>	<u>2,067</u>
Auditor & City Administrator			
Salaries	265,617	266,543	(926)
Travel	2,700	893	1,807
Office supplies	3,200	2,114	1,086
Operating expenditures	15,960	12,267	3,693
	<u>287,477</u>	<u>281,817</u>	<u>5,660</u>
Attorney			
Salaries and legal	47,825	48,823	(998)
Operating expenditures	5,200	4,651	549
	<u>53,025</u>	<u>53,474</u>	<u>(449)</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2019

	Original and Final Budget	Actual	Variance With Final Budget
City Buildings			
Utilities	33,600	27,542	6,058
Operating expense	34,100	14,387	19,713
Repairs and maintenance	15,754	17,093	(1,339)
	<u>83,454</u>	<u>59,022</u>	<u>24,432</u>
Nondepartmental			
Blue Cross self funding	211,244	212,529	(1,285)
Blue Cross premium	109,056	82,118	26,938
Insurance	(6,896)	(7,992)	1,096
Audit	17,000	15,750	1,250
Miscellaneous	25,235	21,508	3,727
	<u>355,639</u>	<u>323,913</u>	<u>31,726</u>
Total general government	<u>1,126,671</u>	<u>1,050,550</u>	<u>76,121</u>
Public safety			
Police department			
Salaries	976,536	954,619	21,917
Investigation	16,000	16,000	-
Employee pension	82,002	81,065	937
Insurance	21,060	19,121	1,939
Operating expenditures	122,428	115,418	7,010
Building upkeep	1,000	532	468
Capital outlay	6,400	5,021	1,379
	<u>1,225,426</u>	<u>1,191,776</u>	<u>33,650</u>
Fire department			
Salaries	274,049	287,826	(13,777)
Insurance	5,450	5,140	310
Operating expenditures	65,900	58,886	7,014
Building upkeep	4,000	2,810	1,190
Capital outlay	3,500	3,317	183
	<u>352,899</u>	<u>357,979</u>	<u>(5,080)</u>
Civil defense			
Operating expenditures	2,000	89	1,911
Health	26,791	26,791	-
Total public safety	<u>1,607,116</u>	<u>1,576,635</u>	<u>30,481</u>

City of Valley City, North Dakota
 General Operations Department
 Schedule of Expenditures – Budget to Actual
 Year Ended December 31, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General government - Other			
Planning and zoning	17,000	12,655	4,345
Community programs	21,000	21,000	-
Capital outlay	40,000	22,804	17,196
Miscellaneous	5,350	6,887	(1,537)
Total general government - other	<u>83,350</u>	<u>63,346</u>	<u>20,004</u>
Culture and recreation			
Recreation center			
Operating expenditures	18,300	18,044	256
Auditorium/Armory			
Management fee	20,000	20,000	-
Park District			
State Aid	-	134,328	(134,328)
Total culture and recreation	<u>38,300</u>	<u>172,372</u>	<u>(134,072)</u>
Economic development			
Industrial development	100	284	(184)
Total expenditures	<u>\$ 2,855,537</u>	<u>\$ 2,863,187</u>	<u>\$ (7,650)</u>

City of Valley City, North Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number		Agency or Pass-Through Number	Expenditures
Department of Transportation				
Passed through North Dakota				
Department of Transportation				
Highway Safety Cluster				
National Priority Safety Programs	20.616		OP19050516	\$ 2,045
National Priority Safety Programs	20.616		ID18100215	<u>1,809</u>
Total for Highway Safety Cluster				\$ 3,854
Highway Planning Cluster				
Highway Planning and Construction	20.205	*	SU-2-990(053)057 PCN 21095	586,584
Highway Planning and Construction	20.205	*	SU-2-990(055)059 PCN 21846	76,430
Highway Planning and Construction	20.205	*	SU-2-990(054)058 PCN 21845	19,268
Highway Planning and Construction	20.205	*	UGP-SU-990(057)	1,840,314
Highway Planning and Construction	20.205	*	SPR-P034(200)	6,662
Highway Planning and Construction	20.205	*	SU-2990(058)	<u>1,816</u>
Total for Highway Planning Cluster				<u>2,531,074</u>
Total Department of Transportation				2,534,928
Department of Justice				
Passed through North Dakota				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		2017-DJ-BX-0058	<u>4,704</u>
Total Expenditures of Federal Awards				<u>\$ 2,539,632</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the City of Valley City, North Dakota (the City) under programs of the federal government for the year ended December 31, 2019. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City.

Note 2 - Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.



Additional Reports
December 31, 2019

City of Valley City, North Dakota



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and City Council
City of Valley City, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Valley City, North Dakota (the City), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 3, 2020.

Internal Control over Financial Reporting

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

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

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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's Response to Finding

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

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.



Fargo, North Dakota
August 3, 2020



Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and City Council
City of Valley City, North Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Valley City, North Dakota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2019. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for the City’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Fargo, North Dakota
August 3, 2020

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance:	No

Identification of Major Programs

Name of Federal Program	<u>CFDA Number</u>
Highway Planning and Construction	20.205
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

**2019-001 Material Journal Entries
Material Weakness**

Criteria – A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition – During the course of our engagement, we proposed a material audit adjustment, which would not have been identified as a result of the City’s existing internal controls, and therefore could have resulted in a material misstatement of the City’s financial statements.

Cause – The City does not have an internal control system designed to identify all necessary adjustments.

Effect – This control deficiency could result in a material misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisory levels.

View of Responsible Officials – Management of the City is in agreement with the finding.

**2019-002 Preparation of Financial Statements
 Significant Deficiency**

Condition – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This included formulating the proposal of necessary adjusting journal entries to convert the fund financial statements in accordance with GASB Statement No. 34.

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect – This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Recommendation – This circumstance is not unusual in a city of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of Responsible Officials – Due to cost constraints, the City will continue to have the auditor’s draft the financial statements and accompanying notes to the financial statements.

Section III – Federal Award Findings and Questioned Costs

None reported